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ABSTRACT

This handbook is intended to provide supplementary instruction on basic business techniques for adult minority students in business education. Relevant information on how to start a business is provided by means of actual business situations and problems encountered in 30 recent minority business ventures. Focusing on business procedures and practices, each problem area is illustrated with specific experiences drawn from these case studies of 30 businesses, of which half failed. A broad spectrum of small businesses were selected, including retail sales, services, construction, and manufacturing. Although discriminatory social attitudes are highlighted, problems which may not be derived solely from this identity issue are also discussed. This government publication covers topics such as financing, recordkeeping, insurance, and customer dealings. Advice from the 30 minority businessmen is given to assist aspiring minority entrepreneurs. (AG)

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Minority Ownership of Small Businesses

INSTRUCTIONAL HANDBOOK

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Minority Ownership of Small Businesses

INSTRUCTIONAL HANDBOOK

U.S. DEPARTMENT OF
HEALTH,
EDUCATION,
AND WELFARE

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Summary

Minority Ownership of Small Businesses—Instructional Handbook provides relevant information to adult minority students on how to go about starting a business. The student is presented materials and information involving real people with whom he can identify, in real business situations from which he can learn. This publication identifies significant problems gleaned from examining 30 minority ventures. It focuses on business procedures and practices. Each problem area is illustrated with specific experiences from the 30 ventures. Although the publication tends to highlight business problems seeming to derive from the entrepreneur's identity as a minority individual, it is also concerned with problems which may not be rooted solely in this identity issue.

Foreword

Minority Ownership of Small Businesses represents a pioneering approach to providing new relevance to business education for adult minority students. The project was undertaken because of the belief that: (1) There are significant differences between the experiences of minority individuals starting small businesses and the experiences of others from the community at large, (2) there is a growing interest in promoting successful business ownership for minority individuals, and (3) there is an urgent need for educational materials which meet the specific needs of the adult minority student. The draft curriculum materials contained in the two companion volumes, *Minority Ownership of Small Businesses —Instructional Handbook* and *Minority Ownership of Small Businesses —Thirty Case Studies*, are the results.

Thirty recent minority business ventures were the subject of the study. Fifteen of the 30 ventures had failed. The other 15 had managed to survive for a significant period (2 to 3 years) and gave indications through profit and growth that they will be successful in the long run. The 30 were selected from a broad spectrum of minority-owned small business ventures in order to identify the widest possible variety of significant problems or issues. They included retail sales businesses, the service trade, manufacturing, and construction.

The two volumes report the events and circumstances as perceived by the individual businessmen and others involved in managing, financing, or otherwise assisting the various ventures. The names of individuals, businesses, and cities have been changed in order to protect the confidences of the interviewees. However, those changes do not alter the pertinent information.

The *Instructional Handbook* presents an identification of significant problems gleaned from examination of the 30 ventures. Dealing with a small and heterogeneous sample, it minimizes quantitative analysis in favor of a descriptive and qualitative commentary. Its focus is primarily on business procedures and practices, but necessarily also includes some commentary on important personal behavioral factors. Each problem area is illustrated with specific appropriate experiences from the 30 ventures. Each illustration is drawn from a case contained in *Thirty Case Studies*, and is identified by the case number used in that document.

The two volumes of *Minority Ownership of Small Businesses* may be used either separately or together, depending upon the specific instructional purpose or environment. In either case, however, they are not intended as a substitute for technical instruction in the fundamentals of accounting procedures, inventory recordkeeping, tax reporting, and so forth. That instruction is basic to all business ventures and there are few, if any, variations that would be of particular significance for the minority businessman.

Rather, *Minority Ownership of Small Businesses* is intended to be supplementary to instruction on basic business techniques. It sets forth the recent business experiences of 30 minority individuals who found business ownership and management considerably different, more difficult and uncertain than they had expected or had been prepared to confront. The student, thus forewarned, should be better prepared to cope with the business problems he will inevitably encounter.

Both volumes have been produced by the Office of Education in cooperation with the Department of Commerce, the Department of Housing and Urban Development, and the Office of Economic Opportunity.

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The U.S. Office of Education wishes to acknowledge the professional cooperation and review by:

Frank B. Lawrence
Assistant to Assistant Superintendent
Department of Vocational Education
District of Columbia Public Schools

The 30 minority businessmen whose experiences form the basis of this publication.

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Finding the Funds

It is no secret that a minority person desiring to enter into business can expect difficulty finding the necessary financing. He is often hindered by such things as a limited accumulation of personal assets to pledge as collateral, inadequate personal funds to offer as equity investment, lack of contacts to open doors, little or no business experience to lend credibility to his proposed venture, and the barriers of racial discrimination. The minority person very often finds himself in a situation where the normal channels of business finance are closed. This may necessitate recourse to other than traditional financing means, making do with less than required financing, or both.

The Initial Financing

Nearly all of the 30 businessmen surveyed had considerable difficulty in locating sources of initial financing. Only four did not, and that may be explained primarily by the fact that they were not required to seek loans from financial institutions.

Three purposely financed their ventures entirely with equity funds, and one (a service station proprietor) found sufficient supplier financing to supplement his own equity investment.

Eight concluded their initial financing without help from any of the assistance organizations whose mission is to help minority individuals become involved with business ownership. Five of the eight found no financial institutions from which to obtain loans, and settled for small loans from individuals to supplement the small investments of their own savings. Three obtained small bank loans to supplement their savings. (These three loans were $500, $800, and $2,000, and the largest was made only when the borrower's automobile was pledged as collateral.)

The remaining 18, after encountering difficulties trying to borrow through the normal channels, turned for help to one of the assistance organizations or to the Small Business Administration (SBA). With this help, 12 did receive bank loans, and six obtained direct loans from the SBA.

For the 12 who borrowed from commercial banks with help from a local assistance organization or the SBA, the amount borrowed averaged $44,125, and ranged from $2,000 to $95,000. In eight of the 12 cases the lending bank approved the loan only when the SBA agreed to give its 90 percent repayment guarantee. Only four cases did not involve an SBA guarantee, and in two of these, the lending banks granted the loan intending to obtain such a guarantee, but the ventures encountered serious financial difficulties before the banks could apply to the SBA.

There is considerable debate over the reasons why minority people have such difficulty obtaining bank financing. Most of the businessmen interviewed for this survey believe that the primary reason is racial discrimination. In their judgment, the banks tend to characterize all minority loan applicants as high risk, and are unwilling to judge each individual's proposal on its particular merits.

While there is little that the individual minority loan seeker can do to counter this attitude, it is important to realize that in today's world this simple approach to the question of lending to minorities no longer typifies all commercial banks. The number of banks that are reexamining their lending policies and taking steps to change traditional practices is increasing. Some are responding with legitimate concern to the widespread belief that bank lending policies have been unfairly discriminatory, while others may be yielding to pressures to change their images. The important point is that there are banks which, with perhaps some encouragement from an assistance organization, are willing to consider loans to minority entrepreneurs with reasonable business propositions.

In order to obtain consideration for a loan from such banks, the first necessity of course is to locate the institution. One could simply conduct a

search for such a bank, and if he were persistent he might eventually make contact. Quite a number of the businessmen surveyed found a more effective way of dealing with this problem through the local organizations that assist minority group individuals in starting a business. Many cities have a local office of the Interracial Council for Business Opportunities (ICBO), the National Business League (Project Outreach), or perhaps a nonprofit community development corporation.

Many of the 30 businessmen surveyed found that if they could convince a community development organization that their projects were worthwhile, there are a number of benefits which that organization could provide. First, it could lead the aspiring businessman to a bank that is willing to "do its part" to spread the opportunities of business ownership to the minority community. Perhaps more importantly, the organization could provide him or her with a good recommendation to the bank and convince the bank that it should assist the particular venture. Frequently, the organization could also assist with the loan application and procedures, so that the businessman would not appear unknowledgeable to the bank loan officer. A few of the assistance organizations could also provide financing in the form of either an equity investment or a loan.

Charles Benson and his partner convinced a recently formed local community development corporation that their idea to start a temporary employment agency was a good one. The assistance organization helped the partners prepare a proposal for their intended venture, including the identification of loan requirements and a cash-flow projection showing how the loan would be repaid from income. It then used its contacts and helped the partners obtain a $46,000 loan from a local commercial bank. The organization had been in contact with the bank on several occasions, and therefore knew it was willing to consider loan applications from minority individuals. (Case No. 9.)

In early 1968 a group of prominent businessmen and community leaders in the city of Bradley decided to form a nonprofit community development corporation to assist members of the minority community to get into business. One of the first ideas they considered was an optical equipment assembly business. Jeff Morris heard of the idea, and applied to the group to start the business if they would support him. The development corporation agreed, and found a bank to loan the new business $32,000, which was 90 percent guaranteed by the SBA. It also lent $7,000 of the development corporation's funds, and subordinated its loan to that of the bank. Mr. Morris invested about $1,000. (Case No. 18.)

Finally, for those who cannot obtain financing elsewhere, the Small Business Administration (SBA) serves as a lender of last resort. If one has applied to commercial banks and has been turned down, the SBA will consider advancing a loan on a direct basis. The SBA prefers to limit its participation to guaranteeing loans through commercial banks, however, and is generally willing to guarantee a larger amount than it will loan directly. Also, the loan seeker should be aware that it may require longer to obtain a loan directly from the SBA than it does from a commercial bank, whether or not the bank loan is guaranteed by the SBA.

In their initial financing, 14 of the businessmen surveyed had received assistance from the SBA. It is likely that most of these entrepreneurs would not have managed to get into business at all had it not been for the SBA. Eight of the 14 obtained SBA guarantees on their bank loans, while six received loans directly from the SBA.

Russell Williams' loan requests were turned down by local banks, and he realized the SBA was the only remaining source of money with which to purchase the men's clothing store that he was offered. However, he was hesitant to go to the SBA since a friend had been turned down, and Mr. Williams felt his friend was even more qualified to run his own business. Mr. Williams went to a local assistance organization. The organization helped him make application, and a $25,000 SBA direct loan was obtained in short order. (Case No. 17.)

When Pat Jamison's employer offered to sell her the beauty salon in which she had been working, she thought the idea of owning her own business was impractical. She believed no one would lend her the money required to supplement the savings she was willing to invest. In time, however, she became more interested, and decided to try to obtain a bank loan. Her attempts were unsuccessful. On the suggestion of a minority business assistance group, she went to the SBA. The SBA lent her $12,500, with repayment over 10 years and interest at 5 percent. She invested $2,500. (Case No. 3.)

Subsequent Financing

It is almost axiomatic, as experience with the 30 indicates, that no matter how realistic the businessman is in his projections for his new venture, it is very likely that his first year's sales and profits

will not reach his expectations. Sales seldom develop as quickly as anticipated and expenses are seldom as low as planned. Twenty of the ventures surveyed ran into unforeseen circumstances which required that they seek additional long-term financing if the ventures were to avoid early deaths.

Fifteen of the 20 eventually failed and of the 15 only three had been able to obtain additional financing. Two owners found debt financing, and one invested an additional $10,000 of his own savings.

> Community Contractors had started in business with about $2,000 in equity invested by the partners. The only financing they had received was a $20,000 mortgage loan on the two deteriorated buildings they purchased. In need of funds to get their fledgling contracting business off the ground, they applied for assistance to a newly formed nonprofit community development organization. Over the next 1½ years Community Contractors suffered from recurring cash-flow problems caused by a variety of unforeseen difficulties. During this period the development organization helped the company obtain loans totaling $50,000 from the SBA and over $165,000 from a local bank, which lent the money against the company's pledge of its accounts receivable. In addition, the assistance organization itself loaned $37,000, subordinating its loan to those of the SBA and the bank. In spite of this additional assistance, serious managerial difficulties, disagreements between the partners, and collection problems combined to produce a disastrous business failure. (Case No. 19.)

> Mr. Hazard began his souvenir record business with $6,500 of equity investment, $20,000 in supplier financing from an equipment manufacturer, and $23,500 in loans from a local bank. The bank had learned that a local assistance organization was going to support Mr. Hazard's project and, without waiting for the organization's application, granted Mr. Hazard the loan he requested. The bank intended to obtain an SBA guarantee, but before it could request it, Mr. Hazard's business venture was in trouble. Sales were running considerably below those expected. The bank did not feel it could apply for an SBA guarantee on a loan already in difficulty and decided to try to give sufficient further financing to rescue the venture. Accordingly, it granted further loans estimated at $158,500 over an 18-month period. The assistance organization guaranteed about $35,000 of this. When no prospects of significant sales materialized, they finally concluded the business was doomed to failure and the bank foreclosed. (Case No. 6.)

It is, of course, unknown whether any of the 12 failures who sought but did not obtain further financing might eventually have succeeded had they found it. However, there is no question that nearly all of the businessmen involved would gladly have continued their struggle had further financial help been available.

Of the five successes which found additional financing assistance when it was needed, three had been financed initially with all, or nearly all, equity and were able to add new debt to satisfy their requirements. They had not lost their flexibility to borrow by earlier granting some other lender first position on any assets, or by agreeing to such typical loan conditions as the requirement that all of the business' assets be pledged as collateral. The remaining two had been capitalized very heavily with debt, and thus undoubtedly would have had considerable difficulty in raising additional loan funds. However, each was able to find additional outside equity investment.

> Howard Coleman had started the Business Protection Corporation with only $1,800 of his own savings. When he determined that his prospects for business survival would be improved if he bought additional security equipment, vehicles, and other assets, he went to a local assistance organization for advice. The organization told him of the SBA's assistance program and how to apply. With the SBA offering its 90-percent guarantee, Mr. Coleman was able to obtain a $14,000 10-year loan from a local bank. Since he had not borrowed earlier, he was able to satisfy the lender's and guarantor's security requirements which included first claim to repayment, a lien on the business' assets, and Mr. Coleman's personal guarantee. (Case No. 4.)

> Neal Hart's Data Services Corporation ran into problems paying its bills after sales did not develop as quickly as had been hoped. The company had been heavily debt financed with a $95,000 SBA-guaranteed bank loan, plus $8,000 in equity. The existing large debt precluded additional loans. Fortunately, Mr. Hart was well acquainted with many well-to-do individuals, and he was able to find investors who were willing to risk $25,000. This additional financing proved sufficient to get the business through its period of difficulties. (Case No. 21.)

The experiences of the 30 act as a forewarning to aspiring minority entrepreneurs that unless substantial equity funds are available, financing for their intended ventures will most likely be hard to

find. To meet the difficulty, the only effective means found by the businessmen surveyed was to obtain the help of a local minority business assistance organization. Even with such help, however, the borrower can expect that stringent loan conditions and restrictions will be applied which, in all probability, could result in making subsequent financing very difficult.

Adequacy of Financing

Everyone starting in business would prefer to start with: (*a*) Adequate funds to purchase the necessary assets, (*b*) a cash reserve for contingencies, and (*c*) very little debt which must be serviced. Disregarding the possible loss of leverage benefits which using primarily equity funds entails, a business financed under these conditions would no doubt have the best chance of surviving. The cash reserve would provide a cushion to fall back upon should the business fail to take off as quickly as projected (something which seems a near certainty), and the absence of debt would relieve the business of the burden of loan and interest payments. There would be room for future loans should they prove necessary or desirable. Three of the 30 ventures did in fact start with situations similar to this.

> Discouraged with the poor prospects of obtaining a loan for a consulting business, Ken Smith decided to raise equity funds instead. Without much difficulty he was able to "sell" his idea to several small investors and raise $25,000. After renting an office and purchasing a minimal amount of furniture and supplies, he had a $21,000 cash reserve to carry the small company while it looked for business. (Case No. 8.)

> The Empire Ballroom was started by an investment group of five knowledgeable black individuals who put up a a total of $25,000, and rejected bank financing primarily due to the fear of losing flexibility in possible future financings. This investment proved adequate to get the ballroom started. Dance bookings grew steadily, and it became obvious that the venture had great potential. Then, unexpectedly, the investors were required to make a substantial investment in new kitchen equipment. Since the business had no outstanding debts, and since the venture was clearly doing very well, the group had no trouble borrowing $10,000 from a local bank for kitchen and other equipment. (Case No. 11.)

> Tom Gordon started his advertising and public relations business with only $8,700 of personal savings. He knew this amount would be adequate, as he had no need to buy machinery and equipment for a service type of business. He also knew that he had three contracts already lined up which would generate a cash inflow as soon as he opened. Simply by leasing office space and purchasing office furniture and some minor supplies, he was in business. Although he had spent most of his investment, the income from the three contracts immediately put the business in a sound financial position. Mr. Gordon says he would not have gone into business if he had had to borrow, as he didn't want to start with the burden of loan payments and he didn't want any creditor interfering with his management of the business. (Case No. 14.)

Thirteen other businesses also started with initial capitalizations which appeared adequate in amount for the ventures undertaken, but 11 of these were very heavily debt financed. Those 11 had an average initial capitalization of $61,400, of which an average $57,300 (93.3 percent) was debt. This ranged from the smallest venture capitalized at $15,000 (with $12,500 of debt) to the largest capitalized at $103,000 (with $95,000 of debt); and the proportion of debt to equity among the 11 was fairly consistent. Clearly, for new businesses, they were heavily debt burdened.

Notwithstanding this heavy burden, the benefits of having an adequate amount for the initial financing were substantial. They could at least be assured that they possessed sufficient assets (physical plant, office, or retail store; machinery and equipment; furniture and fixtures; inventory; supplies; etc.) to face the marketplace. Further, each of the 11 had a beginning cash reserve which could be available to carry them through any unexpected difficulties of reasonable proportions. For the 11, the reserve averaged over $20,000 in size, the smallest being $5,500.

The 11 thus had a potential problem in their high-debt position, but nevertheless had ample financing. Providing they conserved their funds and applied them wisely, they would have a reasonably sufficient period of time in which to establish their businesses. In fact, for six of the 11 it worked out essentially that way. The business was able to attain a position wherein its revenues counterbalanced its costs before the cash reserve was exhausted.

> When the Eastside Pharmacy opened in early 1969, the pharmacist partners capitalized it with $63,000, consisting of $7,000 in equity and $56,000 in debt. The debt included $36,000 owed to a bank for a loan guaranteed by the SBA, and $20,000 owed on a note to the store's former owner. Thus the partners owed a large debt to two separate lenders, and all assets had been pledged to secure the loans. In this circumstance it was unlikely that anyone else would lend them further funds should the need arise. However, the partners had a satisfactory store, a full inventory, and about $10,000 as a beginning cash reserve. Although sales started well, by July they dropped when an urban renewal project moved many of the area's inhabitants to temporary residences elsewhere. Cash shortages developed, and the partners were required to pay expenses from their cash reserve. To counter this situation, they trimmed costs as best they could by dismissing some sales personnel and taking over their own bookkeeping. Finally, in the late summer of 1970, the urban renewal project started returning the residents to the area. (Case No. 25.)

For the other five, things did not work out so well. The cash reserves were depleted before the businesses attained a self-sustaining position. For four of the five, that circumstance then contributed significantly to causing the business to fail, for there was simply nowhere to turn for an additional loan. The one that did manage to survive was able to acquire additional equity financing from new investors willing to gamble on the business' long-range prospects.

Significant to the problem of these five businesses, however, was the fact that the entrepreneurs had invested all—or nearly all—of their cash reserve in additional, unnecessary fixed assets. In other words, they unwisely disposed of their safety factor by investing heavily in assets they deemed necessary for future growth, long before it could be determined whether such optimism was warranted. As it worked out, it wasn't warranted, and they discovered they had purchased problems instead of assets.

> Pat Jamison achieved the purchase of the large beauty salon in which she had been working by investing $2,500 of her savings and borrowing $12,500 from the SBA. Although it had been functioning quite satisfactorily, she shortly invested all of her $5,500 cash reserve for renovations. Because she had no previous experience managing a business, she ran into financial problems, which were then magnified by the fact that she had spent all of her excess cash. These problems were further compounded when a riot in the vicinity of her business frightened some of the customers away. She hung on desperately, investing all of her personal savings and trying unsuccessfully to obtain additional loans. Finally, however, she simply ran out of cash with which to meet her debts. (Case No. 3.)
>
> When Haywood Davis decided to start his carryout business, he received help from a local assistance organization in obtaining $28,000 in loans. To this he added $2,000 of his own funds, plus minor loans he had obtained, for a total capitalization of $32,000. After all startup expenses were paid, Mr. Davis expected to have $10,000 remaining for a beginning cash reserve. Mr. Davis located a sizable two-story building for his business. He leased the bottom floor of the building, and began paying $250 per month for the rent. He also contracted for remodeling work at an estimated cost of $8,000. As it happened, however, the building required much more remodeling than he had expected. The work took several months—during which Mr. Davis had to pay rent, but was unable to earn any income—before finally being completed at a cost of $15,000. Mr. Davis' reserve was less than $3,000. When sales were slow to develop, Mr. Davis had no cushion to carry him. He was out of business within 8 months. (Case No. 23.)

Finally, 14 of the 30 ventures surveyed were clearly underfinanced for the business they intended to pursue. The owners opened for business with either inadequate fixed assets or inadequate working capital, especially inventory. Some, who had not borrowed any significant sum to begin, were able later to borrow and correct their inadequacies. However, for those who had borrowed heavily to start their businesses, there was no alternative but to try to work their way slowly out of the hole in which they started. Their loans had handicapped them by precluding any future borrowing, and at the same time had not adequately provide for their needs.

> Richard Edwards and his partner started Prize Liquor Store by putting up $10,000 of their own

money, borrowing another $10,000 in personal loans, and financing $32,000 directly with the individual who was selling them the store. After other startup expenses were met, the partners were able to begin with an inventory of only $15,000. They knew their inventory was about $8,000 short of the size they required, but there was no further financing available. (The SBA at that time did not lend for liquor store businesses.) When the store experienced initial difficulties—partly due to inadequate inventory—which caused a cash problem, its inventory shrank further. Soon competitive stores opened nearby, and the customers chose to buy where they got larger selection. Mr. Edwards tried to obtain a loan to build his inventory, but could interest no one while the business was obviously deteriorating. (Case No. 20.)

Russell Williams started his men's store with a total capitalization of $29,600. Approximately $2,800 of this came from loans provided by relatives, $25,000 from the SBA, and $1,800 from his own investment. Clothing suppliers allowed him additional credits of only $6,000 on his initial inventory purchases. Mr. Williams knew he needed more financing, but no one else would grant him a loan, and the SBA Equal Opportunity Loan for which he qualified was limited to a maximum of $25,000. Because he could not afford to stock his store as fully as it had been before he purchased it, Mr. Williams purchased only one-half of the inventory he felt was required, and then boarded up half of the store to avoid looking understocked. (Case No. 17.)

Jerome Butler started his photographic studio with only a couple of cameras, some other photographic equipment, and $500. He had tried to borrow additional funds from both banks and personal acquaintances, but was turned down. He did not approach the SBA, and he did not know that there were other local organizations that might consider helping. Since he could afford nothing better, he rented two shabby rooms over a fried chicken carryout. He had no window space in which to display his work to passers-by, and he was able to furnish his studio with only a couple of chairs. He couldn't afford to quit his regular job or hire a secretary, so the studio was unattended most of the day. In addition, the odors from the carryout drifted up through the floors, causing many of the customers to complain. The studio failed. (Case No. 5.)

The experiences of the 30 clearly indicate that it is difficult for the minority businessman to start with an adequate initial financing, even if he is able to obtain large startup loans. Furthermore, it is extraordinarily difficult to later rectify an initial inadequacy, especially if the business is one which has fallen into trouble because of it. Those most vulnerable to serious problems are the businesses which borrow heavily to achieve their initial financing and still start with an insufficient total amount. Cautious investment of the initial financing under these circumstances is most strongly advisable.

The Borrower-Lender Relationship

Lender Restrictions and Influence —Those who borrowed from financial institutions (primarily a bank or the Small Business Administration) generally found that the loan conditions and security requirements were stringent. Having one of the assistance organizations working in their behalf did not seem to alter that fact. A substantial number of borrowers were especially taken aback by security requirements which frequently called for the borrower's personal guarantee, the pledge of personal assets in addition to those of the business, and often the assignment of an appropriately valued life insurance policy. Others were also very aggravated when the lending institutions seemed unnecessarily inquisitive as to the progress of their business. Another source of irritation arose when the lending institutions attempted to exert an influence on the entrepreneurs' business policies and management.

The sentiment reflected by many of the 30 was that the banks were meddling when they had no right to do so.

Daniel Hill complains that when his business had to pay bills, it was required that he present them to the lending bank. The bank in turn paid them rather than let Mr. Hill have control of disbursements. He further resents the bank's attempt to force him to take on an assistant to help manage the business as a precondition to advancing further money. (Case No. 12.)

Many of the businessmen indicated their belief that banks regard business loans to minority people as being high risk. Therefore, if a minority individual is to be successful in negotiating a loan, he must be prepared to dispel this handicapping predisposition.

Those of the 30 who borrowed from financial institutions were generally successful in convincing the loan officers that the individual, personal factors involved in their loan applications were demonstrably favorable. Had they not been able to do this, of course, it is unlikely that they would have obtained a loan at all. But they did, and thus it seems that the lenders must have been convinced that the applicants, as individuals, were sufficiently qualified to give their proposed business ventures a reasonable chance of achieving success. The lenders were most likely convinced by evidence of careful analysis of the business opportunity and a well-prepared loan application, including projections of financial results. It is significant, as mentioned before, that most of the businessmen who negotiated loans had the help of a local assistance organization during this important phase.

The borrowers were much less successful in convincing the lenders that there was satisfactory tangible support (equity investment) for their business propositions. It is highly probable that this was a major cause of their "problems" with lenders who seemed to them unusually insistent upon imposing restrictions and assisting or participating in the management of the business.

Lenders tend to look at the size of the entrepreneur's investment as a measure of his commitment to the proposed venture and of the beginning state of financial health of that venture. Although there is no such thing as an absolutely correct balance of debt and equity in a business, it is common for financial institutions to request that ventures to which they make loans be capitalized with at least 25 percent equity, and frequently with 50 percent or more. Contrast these common lender expectations with the actual situations of the 16 who obtained loans of significant size ($10,000 or more) from financial institutions to establish their ventures. The average total initial capitalization (investment plus long-term debt) for the ventures was $48,500, of which an average of $45,350 represented borrowed money. The 16 businessmen invested an average of only $3,150, representing 6.5 percent of the initial capitalization. Four of these in fact provided no personal investment at all. The largest proportion of equity invested was 19.5 percent, representing $7,000 of a total $36,000 capitalization. With the ventures established almost entirely on money from lending institutions, it is perhaps more understandable and less unreasonable that the lenders attempted to protect their loans by influencing the operation of the business.

An assistance organization helped Daniel Hill establish his sign business with about $30,000, all of which was borrowed from a local bank. Over the next 12 months Mr. Hill painted a few signs, but spent the major portion of his time expanding and renovating his shop. To accomplish this he borrowed an additional $74,000 from the bank and an assistance organization, bringing his total business debt to $104,000. He complains, however, that the lenders insisted on approving every equipment purchase he made. During this entire period he put up no money of his own, but drew a monthly salary of $1,500 from the business. With the business operating with heavy losses and no prospect of improvement, the lenders finally tried to force Mr. Hill to accept managerial help. When he refused, the bank foreclosed, taking the equipment which had been pledged against the loan. (Case No. 12.)

When Haywood Davis opened his short-order carryout business, he was given some very significant assistance by the nonprofit Kingsville Minority Business Corp. (KMBC). KMBC helped him obtain a $24,000 SBA-guaranteed loan from a local bank, and also lent him $4,000 of its own funds subordinated to the bank loan. Mr. Davis invested about $4,000, $2,000 of which he borrowed from a friend. As security for the bank loan Mr. Davis was required to give his personal guarantee and provide a lien on all the business' assets. He was also asked to take out a life insurance policy in favor of the bank to cover the amount of the loan. However, because of his advanced age, he could not obtain a policy. KMBC persuaded the bank and the SBA to waive that requirement. Once Mr. Davis opened, KMBC and the bank followed his progress closely. Within 6 months they decided the business was not going to make it, and they advised Mr. Davis to sell. Mr. Davis accepted their judgment, but neither he nor KMBC could find a buyer who could obtain financing. The bank granted him a further $4,000 short-term loan to assist when he couldn't pay his bills, but this provided only temporary relief. Approximately 2 months after KMBC suggested he sell, Mr. Davis was forced, by lack of funds, to close his doors. (Case No. 23.)

Building a Good Banking Relationship.—The experiences of the businessmen surveyed show that not all banks, or loan officers, are alike. Certain banks are more sympathetic than others to a particular loan proposition. The entrepreneur must therefore realize that it is in his best interest to search for that bank and loan officer most likely to be receptive. As mentioned earlier, several of the 30 looked for recommendations from a regional office of the SBA, a community development corporation, or some other group created to assist minority individuals to get into business. Further, if he has the time before a sizable loan is needed, the businessman may find that the fastest and easiest way to build a bank's confidence in him is to take out a loan when the need is not particularly critical, guard the funds for a short period, and then repay it early.

> Bill Lincoln and his brother went into their retail, office furniture distributing business with $1,000 in savings and $1,000 borrowed from their father. Sales trickled in at a modest rate, barely able to keep them in the one-room office they had rented. Since they had started with very little money, and since their payments lagged behind the receipt of customer orders, the brothers needed a small loan. They applied for a $1,000 loan to the local bank where for years they had their personal checking accounts. The bank rejected their application. Believing this would be their reception at all banks, they decided to struggle on without financial help. Several months later, after they had concentrated their efforts on selling office furniture and had met with very promising results, they returned to the same bank and again requested a $1,000 loan. Again the request was denied. Again the brothers decided they had to make do without financial help. During the next year the business experienced serious cash shortages due to the tight money situation in the economy. Lincoln Furniture made it through that difficult period without serious damage; however, Bill Lincoln concluded that he did not want to be caught again in a situation where he needed funds but had no place to turn. He decided that the best time to establish his credit at the bank was right then, when business and the company looked good. Although he felt the bank which had twice rejected his request would approve a loan application now that his company was successful, he preferred not to do business with it. Although he had no cash shortage at the time, he established lines of credit at two other banks, and borrowed $2,500 on a short-term loan from a third. He has been careful to honor these obligations promptly, and he believes he is now well prepared in the event his company needs to borrow again. (Case No. 1.)

The entrepreneur needs to understand that fear of a borrower's defaulting is the nightmare of all bank loan officials. They regard their loans as "investments" in the borrower's business. Recognizing and accepting the bank's interest, the entrepreneur is in a good position to build the healthy banking relationship that a successful business requires. He is able to anticipate the concerns of the banker (for example, when sales are in a slump), and he may even candidly volunteer his own analysis of the difficulty, including his intended plan to improve the situation. Since the bank looks to the borrower as the guardian or custodian of its money, the borrower needs to respond in a manner that will build the bank's confidence in him. He must be prepared for, and in turn insist upon, a businesslike discussion of business matters.

> In December 1967, Cliff Gibson started his mobile retail clothing business on only $2,000. This included a $500 personal loan from a local bank, the National Bank of Pittfield. In September of the following year, he applied for a much larger loan for his growing business. This same bank lent him $7,500 on a 7-year note, and received a 90-percent guarantee from the SBA. Mr. Gibson saw another opportunity to expand his operation; a small, downtown women's clothing store was to be sold at bankruptcy proceedings. Mr. Gibson described the opportunity to the bank, and explained how he believed the store would allow him to improve his sales sufficiently to carry the extra $6,500 loan he needed. Although they had already lent Mr. Gibson a fairly sizable amount, the officers of the bank decided the opportunity looked satisfactory, and they arranged a $5,000 long-term loan for him by refinancing his house. In addition, they lent him another $1,500 for 18 months on his signature. Mr. Gibson's store did well initially, but during the summer sales dropped as they typically do for clothing stores. By summer's end Mr. Gibson's funds were not sufficient to purchase fall and winter stock. Again he returned to the bank, and explained that his sales had been down temporarily due to the seasonal lull in his business. He explained his need for a loan to purchase new stock, and projected that as sales picked up in the next few months he should be able to repay it. Again the bank supplied the required funds, this time a $4,500 personal loan for 90 days, with renewal possible, if necessary. (Case No. 29.)

A good banking relationship is possible only when each party understands the other's interests

and communicates that understanding. Borrower and lender must deal openly and honestly with each other. The borrower should explain the precise size and nature of his needs, and the lender should explain clearly the dimensions of his institution's willingness to provide financial assistance. The lack of such understanding and exchange of information can produce extreme difficulties later for both parties.

Paul Hazard started his souvenir record business, Sound Souvenirs, with $6,500 of invested capital, a $20,000 credit on a mobile recording van, and about $23,500 in loans from a local bank. The bank had recently decided to make an effort to extend business loans to minority individuals, and this was one of its first experiences. Uncertain of the best way to proceed with this new policy of making "higher risk" loans the bank decided to advance funds as they were needed to outfit the business and prepare it to face the market. Each loan to Mr. Hazard was on a demand basis, with no specific repayment schedule, as the bank was waiting to complete the financing before setting the final loan terms, conditions, and restrictions. Neither Mr. Hazard nor the bank had an estimation of how much money would be required. Mr. Hazard was uncertain about his exact relationship with the bank, but inasmuch as he had not expected the strong support that he was getting, he decided it best not to risk upsetting the situation. As long as the bank was prepared to grant additional loans, he was willing to sign for each new loan without any questions. This pattern continued for about 16 months, during which time the bank loaned Mr. Hazard over $180,000. During this time, Sound Souvenirs managed to record sales of only $4,300, a fact which Mr. Hazard decided was best kept to himself. He advised the bank only that things were going well enough and that the future looked promising. Finally, however, the bank found out the truth about sales. By this time it had financed the building of a complete new recording studio. The bank cut off further loans, while it thoroughly examined its Sound Souvenirs account. It concluded the business had little hope of reaching a profitable position with Mr. Hazard in charge. The bank advised Mr. Hazard that in order for the bank to continue supporting the venture he must step down to vice president and take on a recording consultant as president. Mr. Hazard refused, and the bank foreclosed on its loans, taking possession of all of the equipment. Since the loans had been made on a demand basis, they were technically all in default. These events caught Mr. Hazard off guard, for he was accustomed to the bank supporting his every move. He was unaware of the "on demand" nature, and potential consequences, of his loans. He regrets now that he was not more cooperative, and advises that he sees no alternative but to file for personal bankruptcy. (Case No. 6.)

Any new business venture which has little equity investment, as compared with debt, can expect the lenders to impose restrictions and conditions in order to protect their money. The lenders can also be expected to try to influence the borrower's business operation if they become concerned over the financial health of that operation. In principle this may be true of any new small business venture, but it is even more likely to be the case for minority-owned ventures. Lenders appear to regard their loans to minority borrowers as high risk almost as a matter of definition. The minority businessman, new to this financial arena, must understand and anticipate the lenders' concerns, and communicate with them in a straightforward, candid, and businesslike manner. Only with such communication can a productive borrower-lender relationship be established.

Relationships With Suppliers

Nearly all who entered into nonservice businesses initially had difficulty making credit purchases from their suppliers. They report that suppliers generally treated them with the same blanket discrimination exhibited by most banking institutions. Looking back at their own experience they advise that the new minority businessman can expect to be required to pay cash for substantially all of his inventory of goods or materials. Further, they say that this requirement is likely to continue until he and his business have been proven solidly creditworthy. In addition, their experience tends to show that it makes little difference whether the minority entrepreneur initiates a new venture or purchases an ongoing one.

Russell Williams had managed a men's clothing

store for 2 year before he purchased it. Although he knew the clothing suppliers personally, they still restricted their credit to him when he graduated from manager to owner. As a result, Mr. Williams was forced to pay cash for most of his initial stock, and started with only one-half the inventory carried by the previous white owners. However, in time his store was successful and Mr. Williams built up his inventory to normal levels. Now he refuses to buy from any supplier who won't advance him the credit standard to the trade. (Case No. 17.)

Stuart Hale anticipated that one of his major problems would be the establishment of credit with furniture suppliers. Although he was able to buy on credit from a few suppliers from the start, he was refused credit terms by several. In order to establish himself as a good credit risk, Mr. Hale was careful to pay all of his furniture bills promptly. The attention which he gave to this problem paid off, for within 9 months Firstline Furniture received a "1" rating from a respected credit rating firm. Mr. Hale now says that he can get credit terms from any supplier or manufacturer in the country. (Case No. 15.)

When Cliff Gibson opened his women's clothing store, he was generally unable to make inventory purchases on any terms other than cash. He later realized that since his store was new, it was necessary for him to establish a good credit rating. He prepared a financial statement on his business and sent it to the credit reference companies which provide credit information to clothing manufacturers and suppliers. After sending in his statement, he found he was able to obtain shipments on credit from about 40 percent of his suppliers. A few months later, after the business' asset situation had improved, he sent in an amended statement to the credit reference companies. He says he is now able to obtain credit from about 90 percent of his suppliers, and is confident that his good record of payment will soon allow him credit from the remainder as well. (Case No. 29.)

Providing their businesses met with early success, the problem of restricted supplier credit generally diminished for these businessmen, and they were able to look back on it as merely an annoyance of getting started. However, when the business failed to take off quickly, restricted supplier credit became one of a number of interrelated problems which produced difficulties of critical proportions.

When Larry Clayton started his retail record store, he was able to stock up with a large volume of records, which had been selected for him by a large supplier. Mr. Clayton had been forced to rely upon the supplier's judgment because he had no experience in the record business, and thus was uncertain as to which records would sell. The supplier did not grant credit, however, and Mr. Clayton therefore had to use all of his available cash to purchase the initial record stock. When sales did not develop as expected —a problem caused at least in part, according to Mr. Clayton, because the supplier had picked unpopular records to sell him—the business was in trouble. Because he had committed nearly all of his available financing and had to pay cash for his inventory, Mr. Clayton had no choice but to cut back on his inventory. As his inventory dwindled, sales dipped further as customers went elsewhere to obtain a better selection. Shortly before the business closed, the "low inventory, low sales, lower inventory, and so forth" problem had become so bad that Mr. Clayton was making two trips daily to his supplier to pay cash for a few records to replace those sold. (Case No. 13.)

If he is to avoid these difficulties, the new minority businessman must be certain to take account of the probable stringent terms from his suppliers when he is planning the cash needs of his business. He should be careful that his cash reserve is satisfactory to accommodate further inventory purchases in the event that unforeseen difficulties arise before he can establish himself sufficiently to obtain supplier credit. Further, the new businessman should also consider in advance the effect on his pricing, and therefore on his customers, if he is unable to purchase from his supplier in sufficient quantities to qualify for quantity discounts. This potential problem can be most critical to small retail stores if there is a large competitor who can take advantage of the quantity discounts.

Mr. Clayton's record store was in a small neighborhood retail shopping area, a short bus ride from the city's main downtown shopping center. Mr. Clayton had to pay cash for his inventory and therefore purchased in small amounts. Thus, he could not qualify for the discounts available to purchasers of large quantities. Unfortunately for Mr. Clayton, his customers were much more mobile and cost-conscious than he had anticipated. Whenever a new hit record would come out, his customers would buy it from one of the large downtown record stores which always bought at a discount, and therefore always were able to feature new hit records on sale to attract customers. (Case No. 13.)

As a final comment on supplier relationships, it is worth noting that the businessmen surveyed discovered that not all suppliers are alike. They found

that some are much more reasonable with their credit policies than others, and that the alert entrepreneur should therefore "shop around" among the various suppliers to find the best. It is apparent that prudent management dictates the cultivation of good relationships with understanding and sympathetic suppliers who will stand by the entrepreneur should business go temporarily sour.

> Bill Lincoln started his retail office furniture business the hard way, with very little capital, no showroom, and few sources of supply. However, with a very aggressive effort involving door-to-door canvassing and selling from catalogs, he was able to build a substantial business. With success, Mr. Lincoln found that suppliers were willing to offer credit to support the sales of their furniture. After about 1 year, money conditions tightened significantly throughout the economy, and Mr. Lincoln found that his customers were having difficulty making their payments. When he in turn had difficulty making timely payments to his creditors, he was surprised to discover that some of the suppliers immediately restricted his credit. Other suppliers understood his cash difficulties and did their best to accommodate him during his period of troubles. Lincoln Furniture survived the tight money period, and Mr. Lincoln never forgot his lesson, or his friends. Henceforth, he has made it a practice always to push sales of furniture of those suppliers who supported him, and always to pay their bills first. (Case No. 1.)

If a new businessman is a minority individual then he can probably expect to have difficulties obtaining supplier credit terms on his inventory purchases. He must therefore plan for this circumstance as he estimates his financing requirements, and then be wary of sales problems which an inadequate inventory can produce. The difficulties associated with restricted supplier credit are sufficiently dangerous to warrant his "shopping" for understanding suppliers and then working to establish good long-range relationships.

Customers and Competition

There is probably no more exhilarating feeling for someone with entrepreneurial ambitions than that which comes during his preparations to enter into a new business venture. Very often the aspiring new businessman is convinced that the entire consumer population is waiting anxiously to buy his product or service. He rushes to meet that demand, be it fact or fantasy.

Realistic sales expectations, unfortunately, are rare among new entrepreneurs. The 30 were not exceptions. All but a few predicted sales greatly in excess of what they actually realized. Some of the most serious problems encountered by the 30 stemmed from this very fact—original sales expectations were exceedingly optimistic.

> Kenneth Smith knew that Computer Consultants, Inc., was going to be an enormous success. In fact he believed it was going to be so big and profitable that after 3 years it would be a national company with publicly traded stock. After 4 years he intended to step up from the company presidency to board chairman, in order to have more time to pursue nonbusiness interests. However, he mistook the identity of his customers, and underestimated the difficulty of competing in the computer software business. In the 2 years the company was in business it recorded total sales of only $32,000, as compared to the hundreds of thousands it had anticipated. The $25,000 invested in the business was lost. (Case No. 8.)

Frequently the problems which later arose and were considered by the businessmen to be financing problems (e.g., insufficient funds to pay the rent or maintain a satisfactory inventory level) were in fact primarily manifestations of significantly lower actual sales than anticipated in their planning estimates. Their belated recognition of this can be seen in their advice that others who are considering a business venture should first take a realistic look at what awaits them.

The Customer

Prejudices and Preferences.—Anyone thinking of starting a new business must first ask himself who is going to buy his product or service. For the minority person, the question has added dimensions. Will his customers include the general com-

munity, or just members of his own minority group? If the business has a choice, should it try to sell to the general community? Do the racial groups within the consuming public have preferences regarding from whom they buy? While any new business may be faced with these questions, for the small minority-owned business, the answers are liable to be much more crucial to its outcome. Usually undercapitalized and with very limited sources of additional financing to call upon if needed, the minority businessman is allowed few mistakes in his initial marketing efforts.

The experiences of the 30 revealed no simple explanation of either the black or white consumer's buying preferences. The business may experience racially oriented buying preferences or not, depending upon such variables as the product or service, the approach to selling, and the location of the business. Each case tends to be different.

The most frequently mentioned characteristic of racial preference in buying is that of white avoidance of doing business with black entrepreneurs. Some of the 30 say that they did in fact face this problem.

> When Delmar Fadden started his regional passenger and cargo air delivery service, he knew he was likely to face discrimination from the potential customers, who were nearly all white. He expected this, because he reasoned the customer's general fear of flying is likely to be increased if he finds something out of the ordinary, such as the fact that the flying service is black owned and operated. In fact, Mr. Fadden's business experienced this sort of customer reaction on several occasions, and he lost sales once the potential customer learned that the owner-pilot was black. (Case No. 28.)

> George Fleming had had a fairly successful bakery store in a predominantly black neighborhood of a southern city of about 150,000 population. The business had to close, however, because the building stood in the way of an urban renewal project. Later, against the advice of the urban renewal authorities who were helping him to relocate, Mr. Fleming decited to start another bakery in a predominantly white middle-class neighborhood. Sales never approached the levels which had been attained in the previous store, and Mr. Fleming is convinced that many whites would not patronize the bakery because it was black owned and operated. Not being able to develop a neighborhood clientele, Mr. Fleming was out of business after 5 months. (Case No. 16.)

Recognizing that a certain amount of discrimination from the white community is apt to be a reality of business for the black man, some of the entrepreneurs decided to modify their business image. They concluded that their sales effort with the white community would be improved if they hired some white salesmen and other personnel. (In similar fashion, many white-owned businesses obviously hire minority personnel to improve their sales with the minority community.)

> Howard Coleman advises that he had some discrimination problems with his business protection service, which provides security guards for local companies. For example, he relates that one customer asked him to replace a light-skinned guard once he discovered the man was black. He also relates that customers have ceased negotiations when they learned that the business was black owned. Now Mr. Coleman has a white assistant to help with sales, and 40 percent of his security force is white. With the increased use of white personnel and the growing acceptance in the community, Mr. Coleman's problems have diminished. (Case No. 4.)

> The Lincoln Furniture Co. has been very successful in selling office furniture to business, institutional, and governmental organizations. However, Mr. Lincoln believes that sales have been lost and his growth hindered because of discrimination from some of the white customers. He advises that in the near future he is going to add some whites to his sales force. (Case No. 1.)

A few of the businessmen concluded that notwithstanding some degree of discriminatory white buying practices, other factors were also significant in determining who purchased their product or service. Most important among the factors identified were the business' proximity to the white consumers, its prices, and the product quality.

> When Cliff Gibson operated his retail clothing business out of a mobile unit, he sold only in the black community. After he moved into a store in the downtown shopping district, however, he was pleased to find that his customers now included whites. In fact, approximately 30 percent of his sales are now made to whites, who find his clothing and prices suitable to their needs and desires. (Case No. 29.)

> When Bud Jones opened his shoestore he limited his marketing effort to the city's black community, concentrating in particular on the inner city area surrounding his store. He did not expect any white customers to venture into the ghetto to shop for shoes. However, he reports that his type of "high style" shoes must also appeal to certain members of the white community, for some have gone out of their way to patronize his store. He says that now he

is planning to open another store in the city's main shopping area, where he can better attract the white customers. He also says he is considering following up on a suggestion to try advertising in the student newspapers of nearby predominantly white colleges. (Case No. 7.)

Some of the 30 found that there were elements of the white community which were willing to discriminate in favor of minority-owned businesses. In a few cases, large white-owned and managed companies actually guaranteed they would make sufficient purchases from the new business venture to assure its profitable operation.

Daniel Hill was assisted in starting his sign painting venture by a local community development organization, which helped negotiate bank loans and then provided free promotion. It encouraged the white community to support Mr. Hill's new venture. Several of the city's white-owned companies called for sign painting jobs. Mr. Hill advised them that he was too busy remodeling and enlarging his shop. Some of the job offers he turned down because he believed them too small. There were no further offers of assistance. Mr. Hill had missed an opportunity to capitalize on favorable white discrimination. (Case No. 12.)

John Campbell decided to go into the business of custom manufacturing vacuum-formed plastic items primarily because of the support a large electrical appliance manufacturer promised to give. The large corporation agreed to train Mr. Campbell in the manufacture of his product and to purchase satisfactory quantities to guarantee a profitable operation during the first few years. Once he was in business, the corporation also assisted his sales effort by encouraging two other large manufacturing companies to give him business. (Case No. 2.)

There is no question that having its sales guaranteed is a favorable circumstance for any new business venture. Depending upon the situation, however, there can be some attendant limitations or insecurity in the arrangement. If sales result primarily from one or a few customers, then the business may be totally dependent upon continued good relations with that customer or customers. Should the venture fail to become competitive (price, quality, and service) within a reasonable time, or should the sponsoring customer change his attitudes, the businessman could find himself without any sales. None of the businesses surveyed actually suffered from this problem, but two were vulnerable..

John Campbell's vacuum-formed plastic manufacturing business started with only one customer, a large electrical appliance manufacturer who agreed to guarantee the new company's sales during its infancy. The corporation decided to purchase from the new venture rather than make the parts itself apparently because of its desire to promote minority business. After nearly 1½ years, the large corporation still accounted for 70 percent of sales. The balance is almost entirely accounted for by two other large corporations which had been encouraged by the appliance manufacturer to buy from the new venture. Mr. Campbell realizes that if his company is ever to be truly viable, it must broaden its list of customers. (Case No. 2.)

Jeff Morris started his light assembly service company with one customer, a large optical equipment company which offered substantial assured business in order to help the new venture get started. Although a few other customers have been added, the optical company still accounts for 80 percent of Mr. Morris' revenues. Lately Mr. Morris has had some concern that the country's general economic slowdown and its detrimental effect on the optical company's sales might hurt his business. The company had given some of its assembly work to Mr. Morris primarily to assist his business; however, it still wanted to maintain an assembly operation of its own. Mr. Morris is concerned that if the total assembly work drops much below the present level, the sponsoring company may elect to cut the volume of work given to him, rather than lay off some of its own employees. (Case No. 18.)

One of the businesses surveyed managed to capitalize significantly on its minority ownership without leaving itself vulnerable to the change in attitude of a large-sponsoring company. In this case the business competed on a purely economic basis, offering a service which its customers believed a minority person could deliver most effectively.

Tom Gordon has been very successful with his advertising, public relations, and marketing consulting business. One of the reasons for his success lies in his product, which consists essentially of his knowledge and understanding of the black community, and especially the black consumer. Companies desiring to improve their images in the black community may go to Mr. Gordon's firm for help. (Case No. 14.)

In addition to white customer's buying preferences, the new minority businessman should ask himself whether minority group consumers have preferences or prejudices which are likely to affect him. A few businessmen felt that their sales suf-

fered because some minority consumers prefer to buy from more traditional white businesses, apparently believing, as was commented, that "what whitey has to sell is better." On the other hand, several believed that their businesses benefited from a preference by certain elements of the minority community to support minority-operated businesses.

Stuart Hale purchased the retail furniture store in which he had worked as a saleman. His experience as a salesman had convinced him that there were sectors of the city's white, black, and Puerto Rican communities which preferred to buy from people of their own ethnic and racial group. Accordingly, he has constantly maintained an integrated staff of sales and other personnel. He estimates that approximately 30 percent of his sales are made to blacks, 20 percent to whites, and 50 percent to Puerto Ricans. (Case No. 15.)

Assessing the Consumers' Tastes.—Certain of the businessmen had difficulties in assessing the customers' tastes or desire for their particular product or service. Typically these individuals did not take the precaution of conducting even an informal market survey but, rather, substituted their own tastes for those of the consuming public. For at least two such enterpreneurs, their misjudgments represented a major cause of their eventual failure. However, for a few others, their perceptions of the consumers' desires were extraordinarily accurate, to the extent that they almost singlehandedly assured the ventures' eventual success.

Paul Hazard had served in the U.S. Army for 10 years, working primarily in electronic recording jobs, and instructing in electronic recordings techniques at Fort Paix. The work appealed to him tremendously, as he had a strong interest in the technology and enjoyed the service life. Once out of the service, Mr. Hazard hit on what he believed to be an excellent idea for a business venture. He decided to produce souvenir phonograph recordings of the more memorable sounds of Army training posts, and to sell records to the trainees through the various post exchanges. Drawing on his own experience and pleasant memories, he believed that nearly all of the trainees passing through the post would purchase the souvenir. He estimated sales at 2,000 albums per month at Fort Paix, the first post he wished to record. He did not ask either the trainee or the post exchanges whether they thought such an album would sell. Instead he relied on his own belief that he, as a trainee, would be willing to buy it. As it worked out, Mr. Hazard's company sold a total of 1,000 albums in the 6 months before it gave up the idea. (Case No. 6.)

Larry Clayton loved jazz music, but believed that "rock" style music was terrible and had unwholesome effects on society. He started his retail record store in order to be close to the music he loved and to convince the young of the message of jazz and the emptiness of rock. He believed his reputation as a man who knew jazz would contribute heavily to his eventual success. However, his sale of jazz records never caught on, and he was forced to rely primarily on the sales of "rock" recordings to the youth market. For sales of these records he had to compete with the large discount record stores which sold current "rock" recordings at lower prices. His venture was unsuccessful. (Case No. 18.)

The Empire Ballroom was the product of the idea of a group of five men who decided the city's black population did not have a satisfactory location to hold its dances and other social gatherings. Two of these five men had played in dance bands in the city for several years, and their frequent contact with the groups who rented the ballrooms indicated that they were very dissatisfied with the available facilities and their cost. Ballroom space was so hard to come by that the groups were forced to rent from the city's hotels, which charged extremely high prices and generally refused to accommodate their customers by varying their hours to their needs. The group opened its own ballroom, keying its operation to better its competition in both price and service. The demand for Empire Ballroom's facilities is so great that organizations wishing to hold dances there have to book them up to a year in advance. (Case No. 11.)

Some of the difficulties stemmed directly or indirectly from the fact that although the businessman had correctly assessed his customers' tastes to begin with, those tastes changed.

While working as a packer at a large commercial photographic company, Nancy Conner learned that there were people who worked on their own, at home, applying oil colors to portrait photographs. She also found that they earned more than she could as a packer. Miss Conner took a night school course in photocoloring in her home. Her former employer provided her with work as he had agreed. Within a matter of months the volume of work started dropping, and in short order it could no longer support her. Although Miss Conner was unaware of it at the outset, there was developing a significant change in the tastes of those purchasing photographic portraits. They had switched their preferences from oil portraits to those photographed in natural color.

The market demand for oil portraits vanished, and so did Miss Conner's business. (Case No. 24.)

Sale of quick-changing products, perhaps a "fad," requires the entrepreneur to be constantly on the lookout for style changes. If he is not able to predict a change, and the consequent decline in demand, he is almost certain to find himself overstocked with an inventory which is difficult to sell. He must also watch for signals of a significant downturn in the economy. In an economic downturn, his customers are likely to cut back on their purchases and his inventory will be excessive (particularly if his product is not considered a necessity, but rather a "fad"). When the economy finally does become buoyant again, he is likely to find that styles have changed and his inventory is out of date.

Bud Jones owns an inner-city shoestore specializing in high-style men's and women's shoes. His first year in business was so successful that he opened another store and laid in an especially large inventory in preparation for the second year. Shortly after he had done this, however, the general economy faltered. Mr. Jones' customers felt the pinch and cut back on their purchases. Mr. Jones' inventory level climbed, and with an unusually large investment in inventory, he had a cash shortage. Over time new styles of shoes came out, and Mr. Jones felt forced to stock them for fear of losing his reputation as a store carrying the most recent in footwear fashions. Now, nearly a year after the problem started, Mr. Jones still finds the economy depressed, his sales down, and his inventory much too large. (Case No. 7.)

Russell Williams purchased the inner-city men's clothing store which he had managed. Prior to his purchase the store had sold fairly standard, conservative men's clothing. Mr. Williams was not required to purchase the clothing inventory, however, so when he took over he stocked entirely high-style wearing apparel. Mr. Williams knew his customers' tastes in clothing and was quick to pick up style changes. He also watched his inventory carefully. When he noticed his sales slowing during an economic downturn, he quickly placed some of his inventory on sale and slowed his own purchases. He thus avoided a potential problem of having an overstocked inventory. He has built a successful business selling a "fad" product. (Case No. 17.)

Inadequate Inventory.—Another customer sales problem that some of the 30 experienced was that of not being able to provide the customer with an adequate selection of merchandise. Their inventories were either inappropriate for their trade or too restricted in variety.

When Mr. Gibson decided to purchase a small women's clothing business at a bankruptcy sale it was necessary for him to buy the clothing inventory along with the rest of the business assets. The inventory consisted of fairly plain, conservative clothing. He wanted to specialize in more fashionable clothes for young women, but he could not afford additional inventory purchases. Thus initially he was forced to turn away those very customers whom he intended to become his permanent clientele. Over time, however, he managed slowly to alter the style of clothing in his inventory by replacing merchandise sold with new more fashionable clothing. (Case No. 29.)

Richard Edwards started his liquor store with a limited capitalization, and therefore was able to stock only a $15,000 inventory, although he believed he required one of at least $23,000. In addition, because he had no experience in the liquor business, he chose to stock several items for which there was no significant demand. He hoped to build and improve his inventory over time, but sales did not develop as he wished. Instead, with low sales the business ran short of cash, and he was required to let his inventory drop further. As inventory fell, sales fell also, and Mr. Edwards found it increasingly difficult to satisfy his customers' wishes. Eventually the downward spiral of low sales, lower inventory, lower sales, plus the arrival of new competitors, led to the failure of the business. (Case No. 20.)

Consumer Reaction to Location.—Finally, for those retail and service businesses situated in an inner-city ghetto area, there were a number of problems related to the consumers' reaction to the business' location and surroundings. One such problem was customer fear of crime in the area.

Robert Evans' specialty restaurant was located in a neighborhood known to have a high-crime rate. It was also far removed from its major customers. Thus in order for the customers to patronize the restaurant it was necessary for them to take a long drive or bus ride into the area, find parking or step out at the bus stop, and then walk to the restaurant. Although the customers tolerated this for a couple of months, most soon decided it wasn't worth the inconvenience and risk. They were encouraged in making this decision by the fact that the restaurant was twice held up by armed robbers while customers were present and once broken into and robbed at night. (Case No. 26.)

Pat Jamison's Downtown Beauty Salon did a good business by attracting predominantly black customers from all over the city and suburbs. These customers were primarily working women who appre-

ciated that the salon was open when they needed it (7 a.m. to midnight) and gave quick, low-priced service. However, during its second year in business the area in which the salon was located suffered from a severe riot. After this Mrs. Jamison's business dropped to about one-half its former level, as her customers were afraid to come into the area, especially at night. Although the salon remained open for nearly 2 years after the riot, business never recovered. (Case No. 3.)

Another problem which tended to hinder customers from frequenting ghetto-located retail businesses was that of restricted credit. When credit card companies find the incidence of fraudulent use of their credit cards to be particularly high in certain geographic areas, they are likely to deny use of their credit facility to merchants located in those areas. Some of the businesses surveyed suffered from just that situation, and in consequence were forced to cut back on the credit services they formerly offered their customers. Although the businessmen affected are obviously not to blame for this inconvenience, the customers are likely to resent their loss of credit privileges.

Bud Jones' ghetto-located retail shoestore had arrangements with two credit card companies to use their credit facilities, and approximately 10 percent of his sales derived from customer purchases with those cards. However, recently the two companies withdrew the use of their cards by the merchants in Mr. Jones' area. They advise that the fraudulent use of cards had grown to an unacceptable level in that area. Mr. Jones notes that he has lost nearly all of his former credit card customers. (Case No. 7.)

The appearance and commercial vitality of the area also has an effect on the consumer as he or she determines where to go shopping. Several businesses suffered from the fact that the surroundings did not convey the impression of being a "shopping area."

Shortly after Russell Williams opened his men's clothing store in a ghetto area of the city, he was forced to close by a riot which resulted in the looting or burning of nearly all the retail businesses in the area. Although most of the businessmen never reopened, Mr. Williams did. The area never had been a very popular shopping area, for it was widely recognized that consumer purchasing power was low in that vicinity, and therefore few quality retail stores chose to locate there. After the riot this situation worsened, for many of the looted or burned stores never reopened. Now, 1½ years after the disturbance, approximately one-half the retail stores are still closed, with plywood covering their windows and doors. This gives the area the appearance of a former battleground, and customers are naturally less inclined than ever to make their shopping forays through the ruins. (Case No. 17.)

The Competition

Stimulated by the excitement of starting their own business ventures, several of the 30 underestimated the strengths of those with whom they would be competing for the consumers' dollars. Most typically the businessman's misjudgment was based on either an unvalidated belief in the superiority of his own product or service, or an underestimation of the strength and tenacity of his competitors.

Charles Benson and his partner had each worked in positions involving job placement for the "hard core" unemployed. When they decided to start their own temporary employment agency, they felt certain they would be able to provide higher quality help than could their competitors. They also believed that with their contacts in the top management of several of the city's large corporations, they would be able to "steal" business from their competitors. Once in business, the partners quickly found they were mistaken. The help provided by their agency turned out to be essentially the identical people provided by their competition. They also learned that their contacts with the top management of the large corporations produced little benefit, as it was the middle management in the corporations' personnel departments who made the decisions in hiring temporary help. Further, they found that their competition over the years had developed very strong, close relationships with the middle managers. (Case No. 9.)

From his employment experiences with a large aircraft company and a scientific governmental institution, Ken Smith learned computer programing and something of the research applications of computer technology. He saw private consulting companies winning contracts to perform work which, it seemed to him, was similar to that which he did. Deciding it should be easy to underbid the competition, Mr. Smith started his own computer software consulting company. As he looks back on his unsuccessful venture now, Mr. Smith acknowledges that he considerably underestimated the difficulties in entering the computer software business. He found the established consulting firms very firmly entrenched, and determined to stay that way. (Case No. 8.)

Larry Clayton advises that prior to opening his small neighborhood record store, he didn't consider where his competition would come from. However, he was certain he was going to make it big. Once

open, he discovered that his major competition: (1) Was only a short bus ride away, (2) had a much greater record selection than he, and (3) sold the big selling "rock" records at prices significantly lower than his. This combination, together with a serious misjudgment of his customers' tastes, proved more than he could handle. (Case No. 13.)

Over time, the competitive situation of most businesses can be expected to change. Even over the short periods in which the 30 were in existence, several experienced significant changes. Nearly all of these changes were unfavorable and in the form of increased competition.

When Richard Edwards opened his inner-city liquor store, it was the only one in the area. There had been others, but a riot has resulted in their being vacated. Sales were not good to start, as Mr. Edwards had an inadequate inventory. Over time he hoped to expand his inventory with profits. Shortly, however, two new liquor stores opened directly across the street, and one of these cut prices significantly. Since Mr. Edwards felt his operation couldn't survive a price war, he declined to match his competitor's price drops. With the products for sale in all liquor stores obviously equal, Mr. Edwards' customers walked across the street. (Case No. 20.)

Harold Phillips' investment group recognized a good opportunity. Ballroom space in their city was in big demand and was very expensive. They opened their own Empire Ballroom, catering to groups who appreciated their lower rental rates and more accommodating service. The venture was a big success. In time, however, others recognized the same opportunity, and more ballrooms opened. Thus far the additional competition has not cut into Empire's revenues, for the demand for additional ballroom space was too great. Mr. Phillips believes, though, that if the trend continues, Empire will suffer. He is particularly concerned over the new ballrooms started by one of the churches. Since the church receives tax benefits from the Government, it charges less for its hall rental and services than can Empire or any other private competition. (Case No. 11.)

A few found that their competitive situations became more difficult for still another reason. With success they had improved the quality and/or range of products and services offered, and this "trading up" had put them into a new ball game with new opposition.

The Lincoln Furniture Co. has been a success. Mr. Lincoln and his brother started from scratch, selling budget line office furniture out of catalogs door-to-door. Success pointed to expansion and they decided to extend their operations to reach those who purchased higher quality furniture. In time they shifted almost entirely to grade "B" or better office furniture. They also added office supplies to their list of products. This product transition put Lincoln Furniture into competition with bigger and stronger companies. (Case No. 1.)

Many of the businesses surveyed did manage to counter successfully a stiff competitive situation through good service in their customer relations. A few altered their product or service somewhat, and shifted their marketing efforts to a new group of consumers. However, most of the 15 successful businessmen beat their competition primarily by exerting a more determined, aggressive, and extensive personal sales effort, pivoting upon the necessity for the entrepreneur himself to be a good salesman. The aspiring entrepreneur must realize that in almost every new small business venture, the major responsibility for sales rests on his shoulders. He is in fact the sales force. If he is not up to making the required strenuous sales effort, the business will almost certainly fail.

Finally, the experience of the 30 demonstrated that the businessman must be flexible in dealing with his competition. He must analyze carefully what is happening, and then implement that competitive tactic, or combination of tactics, which he has determined is right for his situation.

Prior to starting their temporary employment agency, Charles Benson and his partner seriously misjudged their ability to improve on the quality of the hired help provided by their competition, and underestimated the strength of the grip by which their competition held the large corporate customers. Once their misjudgments were apparent to them, they shifted tactics. Since the competition was firmly entrenched with the large corporations, they went to the smaller business firms, which previously had not utilized temporary help. They were turned away by many firms, but with persistence they found several to whom they sold first the concept (of hiring temporaries), and then themselves. Since the people utilized as temporary employees were the same for all of the competing firms, the partners thought of ways to improve their personal relationships with the customers. Each morning, before the customer had a chance to worry about his absent employees, one of the partners' office assistants would call to inquire whether the agency could be of help that day. They also bought vehicles with which to deliver the temporaries quickly to their job assignments. To get added income from these vehicles, they initiated a delivery service which op-

erated during the day, between the hours when the temporaries were delivered and picked up. With these alterations in strategy, and the implementation of a very aggressive sales effort, the agency went on to become a successful venture. (Case No. 9.)

The experiences of the 30 show that as aspiring businessmen most were exceptionally—indeed unrealistically—optimistic when they projected their future sales. Once in business many found that they had seriously misjudged the nature of the consumers' buying preferences. Numerous others discovered that they had competitors who were much more aggressive and determined than they had anticipated. For most of these businessmen, it is unlikely that this state of affairs would have come about had they taken the precaution prior to startup of making at least an informal market survey. The keys to success for those who managed to survive their unexpected difficulties seemed to lie in: (1) Exerting a strong, determined personal sales effort, (2) remaining alert to changing market conditions, and (3) being flexible in their marketing efforts.

Customer Credit

Credit to Individuals.—Where credit was an essential aspect of the retail trade, most of the businesses accepted one or more credit cards provided by local or national credit card companies. Thus, they were able to provide credit service to those customers who could obtain cards and at the same time eliminate or reduce the risk of providing personal credit. However, some businesses suffered when the credit card companies whose services they had been utilizing decided to terminate operations in their section of the city because of a high incidence of fraudulent use of their cards. The restrictions, of course, applied to all customers trying to shop in the area. The businesses located in the affected area lost the sales normally made to credit card purchasers.

Russell Williams' men's clothing store had utilized the services of three credit card companies—two national and one local—for over a year. Recently, two of the companies ceased operations in the inner city area where Mr. Williams' business is located. Prior to removal of the two services, purchases made with their cards had accounted for approximately 20 percent of sales. Since termination of the credit services, sales at Clothes For Him have dropped significantly. While the customers who previously used the cards may not hold Mr. Williams personally responsible, many prefer to shop elsewhere and buy on credit. Mr. Williams believes that the termination of the credit services further restricts the number of people that come into the area to do their shopping. (Case No. 17.)

Even when available to the area, credit card services do not solve the problems of credit in the ghetto community. A higher proportion of ghetto residents are low-income families and cannot, in any event, obtain a credit card. The ghetto merchant is more frequently forced to decide between the risk of extending personal credit and losing the sale. The businessmen surveyed generally preferred to avoid the risk and lose the sale.

Out of 20 businesses involved primarily in retail sales to individual consumers, 14 started in business with a firm policy of not granting personal credit. Of the six which did grant personal credit initially, all had collection problems. For some, the problems were difficult and led to the later adoption of a "no credit" policy. One saw his collection problems as reasonable to expect in retail business.

When he first went into the retail clothing business, Cliff Gibson allowed his customers to purchase on personal credit. Because of his resulting losses and collection difficulties, he discontinued the practice. He currently accepts two national credit cards, but says that he loses sales because he no longer allows personal credit. Nevertheless, he feels that the collection problems are too severe to justify returning to his previous credit policies. (Case No. 29.)

Jerome Butler allowed his customers to pay on time for the photographs he had taken. He says that consequently he had some bad experiences with collection before learning that it was standard practice for photographic studios to hold the pictures until full payment was received. Mr. Butler

says that because of his own ignorance of the practices of the trade, he collected only $2,800 of approximately $4,000 owed him before his own inability to pay his debts forced him out of business. (Case No. 5.)

Stuart Hale has been granting personal credit on furniture sales for the 1½ years that he has been in operation. However, he sets a low limit for any one customer, and is very selective regarding the people who are allowed to receive credit. He checks information provided by both the local credit bureau and other retail stores. As he says: "We generally get all of the information that we can." He says that collections are still a problem despite the precautions that he employs. Nevertheless, he does not feel that the losses are above the average for the trade, and says that repossessions have been relatively few. (Case No. 15.)

Credit to Business and Government.—Businesses which sold principally to commercial establishments tended to avoid any problems by following the standard practices and terms of the trade and by utilizing credit reference services. Three of four businesses which dealt with governmental entities had collection difficulties. One set of problems concerned slow payment. The other was much more difficult and involved the complexity of local government payment procedures and administration.

Eastside Pharmacy has a substantial number of customers whose purchases are later paid for by a Government agency administering medical aid programs. The partners have found that the billing procedure is time consuming and have had to hire a clerk just to handle the Government account. In addition to added personnel costs, Eastside has encountered problems associated with delay in receiving payment. The payments are generally not received until 4 months after the sales, while the pharmacy must pay its suppliers over a much shorter period. In order to try to relieve the resulting cash shortage problem the partners are contemplating suing the administering body. They consider that the problems associated with collecting from the Government agency have been among the biggest they have had to face. (Case No. 25.)

Community Contractors was awarded a contract with the city government for repair of housing found to be in violation of the building code. Henry Jackson says that the city was generally late in paying, for it did not have sufficient inspection personnel to service its end of the contract. The delay in receiving payment created problems for the firm because it had to meet its weekly payroll whether the city had paid for the work or not. By the time the contract terminated, the arrears on the firm's city account had grown to $180,000. Community Contractors is now out of business and suing the city for payment. The city disputes the amount charged. (Case No. 19.)

Those businesses which experienced problems with credit—either personal or commercial—did so largely because they ignored or were uninformed of the standard practices of the trade. Nevertheless, the most significant problems encountered in relation to credit were largely beyond the control of the minority entrepreneur. Where the pressures to grant credit are great, as they are in low-income areas, the unavailability of credit card services may have severe consequences for the individual business. A serious dilemma is imposed on the minority entrepreneur who loses such services but recognizes the dangers of granting personal credit.

Recordkeeping

The importance and difficulty of keeping a good record of the operations of the business are widely confirmed by the experiences of the 30. Because of a lack of business education or experience, the entrepreneur frequently misjudged or dismissed the importance of having a complete and appropriate set of records. A frequent problem for the new businessman was not knowing what records would be required to aid in the control and development of a successful operation. All too often the record system was developed only as or after problems arose. The businessmen now recognize that their own inability to deal with the recordkeeping problem may easily have hindered their growth or hastened their failure.

When Jerome Butler started his photographic studio, he attempted to do his own bookkeeping and accounting. However, he had no idea how one should

go about this, and as a result his recordkeeping consisted only of various bills, receipts, and other scraps of paper placed in a large manila envelope. He tried to perform a monthly accounting of his operations, but found the job too confusing and time consuming. Mr. Butler seldom knew whether he was making or losing money on his photographic work, and he found it impossible to initiate an effective collection procedure. Now that his studio has failed, he advises that in subsequent ventures he will have a good recordkeeping system set up before he opens. (Case No. 5.)

Delmar Fadden says that he thinks he keeps all the information required, but that it is not in the form he needs. Keeping records has been a headache, and he has had to bring somebody in once every 6 months in order to straighten it all out. Mr. Fadden says that his problem is also one of knowing what records to keep and, with things in the mess they are, he is certain he is not taking advantage of the benefits that good records could provide. He suggests that before anyone enters business he find a good accountant. (Case No. 28.)

Whether the businesses maintained their own records, hired a full-time bookkeeper, or used the services of an accounting firm generally depended upon the size and type of operation, as well as upon the entrepreneur's own ability to maintain accurate records. Some found they needed extensive assistance, while others did not.

Jeff Morris from the start has had one of his employees assigned to the specific task of keeping the records straight. He says that the system has always been satisfactory, but that as time passed improvements were made. Initially, one of the secretaries with a bookkeeping background kept the records, but more recently Mr. Morris has hired an experienced accountant for 2 weeks of each month. He advises that he would not attempt to maintain his records without appropriately trained help. (Case No. 18.)

At Eastside Pharmacy the partners paid for the services of an outside accountant during their first year of operation; however, although the records were adequate, they decided that the cost was too high. James Fields felt confident that he could do an adequate job of keeping all of the necessary records, and so the accountant was not engaged for the second year. Now except for year-end statements and tax returns, Mr. Fields does all of the recordkeeping on forms purchased from a firm offering standardized bookkeeping systems. The partners are completely satisfied with the records as they are now kept, and are pleased with the fact that they have cut expenses. (Case No. 25.)

If the businessman decides that he cannot keep his own records and requires the services of outside help, the experiences of the 30 show that finding qualified assistance may be difficult.

When she opened Downtown Beauty Salon, Pat Jamison felt that except for bookkeeping and accounting, she had the business knowledge that she needed. Recognizing the need for assistance she hired an accountant for $100 per month, but let him go when he did not provide her with the monthly statements required. She next hired a business services firm to teach her a bookkeeping system that she herself could maintain, but the attempt was abandoned after only one small portion of the system was learned. Mrs. Jamison decided to try hiring another accountant to do all of the recordkeeping. The accountant charged $60 per week, but did very little. Mrs. Jamison decided she was receiving nothing for her money, and stopped paying him after his failure to file the appropriate tax forms caused the business to be fined $400. Finally, shortly before the business was forced to close, she found an accounting firm which was able to bring some order to her books at a cost of $100 per month. (Case No. 3.)

The businessman's lack of experience in accounting and his inability to fully understand accounting concepts, methods, and terms may have serious effects upon his operation. Of special significance is the importance of cost accounting to manufacturing, contracting, and other service ventures in which the entrepreneur must have the ability to determine the appropriate rates or prices which should be charged for services or products in order to insure a profitable operation.

Jeff Morris had felt for some time that he was not receiving a fair price for the optical assembly service that his business provides. Nevertheless, his own lack of understanding of cost accounting and how to determine an appropriate price prevented him from approaching his major customer to renegotiate the terms of their agreement. As Mr. Morris put it, he didn't understand the terms or concepts that his customer had used in negotiating the price. Mr. Morris decided that he must receive expert help and called in a business consultant who provided him with the accounting information which justified a price increase. Mr. Morris now feels that he better understands the accounting and will be better able to negotiate with the professionals on the customer's staff. (Case No. 18.)

The business of manufacturing vacuum-formed thermoplastic parts is one which requires John Campbell to have a knowledge of cost-accounting methodology. Mr. Campbell must be able to make accurate cost estimates in order to bid on potential

contracts. He must determine the amount of materials, molds, and fixtures required, the manufacturing operations to be performed, and the number of production setups and run time required. Utilizing cost-accounting procedures, Mr. Campbell must then approximate his total direct costs. Next, by applying appropriate overhead expense rates, he determines the indirect costs. The sum of these two then represents the estimate of total costs, which he must use in bidding on new contracts. Although Mr. Campbell had no knowledge of such matters before he decided to start his business venture, he was assisted by a large local manufacturing corporation which voluntarily taught him the required accounting methods and terminology. When he was ready to begin production, the corporation also helped him initiate an accounting system to provide the information he needed. Mr. Campbell finds it very irritating to have to pay so much attention to his company's bookkeeping, but he knows it would be impossible to succeed otherwise. (Case No. 2.)

Finally, nearly all the businessmen surveyed—including those who were able to overcome most of the problems presented by the requirement to keep an adequate set of records—found that bookkeeping was time consuming and irritating. However, all now realize that it is a necessary, although aggravating, part of being in business.

Employment

The problems inherent in the selection and retention of qualified employees are of major significance to any business. To the small business, those problems assume critical significance. There are but a few employees, and the consequences of poor performance result in a proportionately greater detrimental effect on its total operations.

Wages.—Some of the minority businessmen surveyed had difficulties in securing competent employees at the relatively low-salary levels which they felt that they could afford to pay. This was not a unique problem for the 30, but rather one they have in common with most small businesses.

Howard Coleman at Business Protection Corporation has 10 full-time employees and over 25 security guards who are called in as work requires. Keeping a crew of security guards has been a big problem. Regulations require that they have a high school education. However, Mr. Coleman feels if his business is to make a profit he can afford to pay only $1.75 an hour. He realizes that the low pay limits his ability to attract hich school graduates who are willing to stay with the company. (Case No. 4.)

Eastside Pharmacy has two full-time and seven part-time sales people, in addition to the two pharmacist-owners. James Fields says that employee turnover is one of the significant problems that the business faces. The high turnover, he indicates, is due to the fact that Eastside, as a small business, cannot pay salaries equal to those of the larger establishments. For that reason, they have lost several qualified employees who have found higher paying positions elsewhere. (Case No. 25.)

In some cases the businessmen attempted to overcome the problem of not being able to afford to pay competitive wages by utilizing the cost-free labor of friends and relatives.

When Ed Clark opened his service station several friends and relatives volunteered to work for free, pumping gas and attending customers. They wanted Mr. Clark to succeed and enjoyed being a part of the new business venture. For the first few critical months of operation, Mr. Clark had the significant benefit of substantial cost-free labor. Mr. Clark had opened for business with a cash reserve of only $20. The initial low level of wages enabled Mr. Clark to get through the difficult startup period without requiring additional financing. (Case No. 10.)

Location.—There were instances where the businessmen encountered difficulties in hiring or retaining qualified employees because of the fear of working in the inner city. This was particularly evident where the area had recently been the scene of civil disturbances.

The Downtown Beauty Salon was located in an area that had undergone riots in the spring of 1968. Following the riots, the community, both black and white, concluded that the area was unsafe. Many employees of the beauty salon found other jobs in "safer" areas. The result was particularly harmful for Downtown Beauty Salon. Not only was Mrs. Jamison forced to find new employees, in addition

she lost customers who preferred to be served by the departing operators. (Case No. 3.)

At times the inner-city businessmen, either because of his concept of the role of his business or his location, was caught between the desire to fulfill a social purpose by hiring from the "hard core" of the inner city and the need to provide his business with the most efficient labor available.

The founding of the Vacuform Manufacturing Company was promoted by development organizations and the local business community in order to provide the "hard core" unemployed of the inner city with an opportunity for employment. The owner, John Campbell, was very much in accord with that purpose. For the 2 years that Vacuform has been in operation, Mr. Campbell has maintained the hiring practices that were a part of the original objectives. Over that period of time he has had to hire a total of 50 in order to retain 13 satisfactory employees. Despite the higher costs that are associated with the high turnover and additional training, Mr. Campbell does not regret the decision to hire the "hard core." He notes that since adopting a policy of dealing firmly with employees of low motivation he has decreased personnel problems. As further incentive, he intends to introduce a profit-sharing or stock-option plan. (Case No. 2.)

Despite an initial attempt to employ low-skilled or inadequately motivated labor from the inner city, some businessmen found that the economic realities of the business dictated more restrictive employment practices.

Jeff Morris began operations with five employees, all from the "hard core" unemployed of the inner city. His company, Diversified Services, had been conceived and organized by community development groups for the purpose of providing jobs for the unemployed from the inner city, as well as for the purpose of promoting minority-owned and operated businesses. The first five employees received technical training in optical equipment assembly from the large corporation that had provided an assurance of Diversified's first year sales. Nevertheless, within 5 months Mr. Morris was required to find replacements for four of the five. Mr. Morris decided that he couldn't run a business entirely with "hard core" labor. He felt that he suffered not only because of a high rate of turnover among his employees, but also because of employee absenteeism and tardiness due to family problems, drugs, violence, and alcohol. Mr. Morris concluded that his first obligation was to stay in business, and he has since raised wages and sought out better qualified employees. As a result he has been able to reduce the rate of turnover and improve the efficiency of his operation. Now, although all of his 15 employees are from the inner city or its fringes, only two are considered by Mr. Morris to be "hard core." (Case No. 18.)

Racial Composition of the Work Force.—The experience of the 30 indicates that the minority businessman is often faced with making a conscious decision as to the racial or ethnic composition of his personnel. For the most part, the 30 made that decision in accordance with the needs of the business.

Cliff Gibson estimates that during the summer months when the local white universities are not in session, close to 100 percent of his customers are black. Accordingly, he decided that his one full-time salesgirl would be black. During the school year, which begins in the fall, the number of white customers increases to what Mr. Gibson estimates as about 30 percent of his clientele. Last fall, Mr. Gibson located a white person interested in part-time work at his dress shop. The school year staff of Woman's World now consists of the black salesgirl, a part-time white salesgirl, and Mr. Gibson himself. (Case No. 29.)

Stuart Hale's furniture store is located in an inner-city area, the majority of whose residents are from three racial or ethnic communities: i.e., black, white, and Puerto Rican. From his own selling experience, Mr. Hale believes that there are sectors of each racial or ethnic population which prefer to buy from salesmen of their own group. Accordingly, Mr. Hale maintains an integrated staff which includes, black, white, and Puerto Rican salesmen. (Case No. 15.)

In some cases the entrepreneur found that hiring the most qualified people available resulted in a racially mixed staff, although no conscious attempt had been made to hire for that purpose.

Tom Gordon's new business venture was to provide advertising and public relations services to firms requiring an understanding of the black consumer and his tastes. He did not require a large staff and it was important to hire qualified people who would contribute substantial understanding and experience to a new venture. The two initial positions to be filled were those of copywriter and media director. Mr. Gordon found two individuals each of whom had 12 years of experience in their respective fields and who were willing to work for a moderate salary during the initial stages of the business venture. Both were white. The availability of these two was a factor in Mr. Gordon's decision to enter the business. Later, when the growing business required the addition of two new positions, Mr. Gordon again looked for ability, experience, and a sense of responsibility to the work. This time he found the right

combination of those factors in two black account executives. Mr. Gordon now has a competent staff which meets the needs of the firm. It also happens to be a racially mixed staff, although Mr. Gordon did not specifically set out to accomplish that end. (Case No. 14.)

None of the businessmen with racially mixed staffs indicated that there had been any racial problems among the personnel of their organization. Their experience suggests that the initial selection process tends to eliminate black or white applicants whose prejudices might bring problems to the organization.

Crime, Insurance, and Bonding

Because of tradition, discrimination, or his own desire, the minority businessman often locates in an area of the city which happens to have a high incidence of crime. Of the 30, 16 encountered problems related to criminal activities which ranged from theft by employees, to robbery, burglary, and the destruction of property during civil disturbances. The experiences tend to indicate that although crime in various forms may be a fact of life for all businesses, it is a highly significant problem for businesses in the inner city.

Robbery and Theft.—Several of the 30 were subjected to direct assaults on their business or person. In one case, a business was forced to close largely because of a robbery and the absence of insurance covering the attendant losses.

Robert Evans established Port Caribbean in November 1968 in an area that was considered to be one of high crime. Four months after opening, the restaurant was entered at night and $2,000 worth of food and equipment was taken, including the specialty cooking utensils used to prepare Caribbean dishes. There was no insurance coverage, and Mr. Evans had to replace the lost items with funds taken from daily receipts. This prevented him from paying certain creditors. A robbery a short time later resulted in a $60 loss. The business by that time was in arrears to all of its creditors and its cash was exhausted. In May, 6 months after opening, Mr. Evans was forced to terminate operations when one of the creditors foreclosed. (Case No. 26.)

Nearly all retail businesses with goods on display experience losses due to shoplifting. The retail businesses among the 30 were no exceptions.

Cliff Gibson had been in his downtown women's clothing store for 6 months when he first noticed missing merchandise, including three jumpsuits with a retail value of $90 each. Mr. Gibson says he doesn't know how the merchandise could have been removed, because the selling area of the store is small and easily visible from all points. He doubts that he can stop such occasional thefts. (Case No. 29.)

Several of the 30 encountered problems of employees taking merchandise or equipment from the business. The cases indicate that, like shoplifting, theft by employees may be very difficult to curb.

Mr. Jackson knew of a significant amount of theft by Community Contractors' employees. There were several instances in which building supplies were taken and offered for sale to others. However, with over 50 employees, it was hard to identify the guilty individuals. The company continued to lose materials up to the time that it was forced out of business. (Case No. 19.)

Crime in the Neighborhood.—Some of the 30 learned that it was not necessary to be the actual victim of criminal acts for the business to suffer from the crimes. If an area acquires the reputation of having a high incidence of crime, the result is likely to be a loss of sales for the businesses located therein. In addition to customer fear, the entrepreneur may have to deal with employee fear.

The Downtown Beauty Salon was located in an area of the inner city that was considered to be one of high crime. Following large-scale civil disturbances in that section of town the area's reputation suffered even more, and some of Mrs. Jamison's customers refused to come into the area. She attempted to deal with customer fear by providing transportation, but that proved impractical. Mrs. Jamison reports that she also lost some of her beauty operators, for they too were afraid to travel into the area. Further, when the operators left to work elsewhere, they usually took some of the regular customers with them. (Case No. 3.)

Civil Disturbance.—A civil disturbance can have the immediate effect of closing down a business. Two of the 30 businessmen suffered that fate and were out of business for several costly months.

Russell Williams opened his men's clothing store in February 1968, in a commercial ghetto area of the inner city. Two months after opening, riots struck the city, and Mr. Williams' store was looted and burned. Fortunately, the loss was covered by insurance. He waited for several months before deciding to reopen in the same area. Then, when he was convinced that the larger risks had diminished, he made a second attempt. He was open for 1 day when another disturbance closed him down. Again insurance covered the loss. Mr. Williams was persistent, and within a month he opened for the third time. (Case No. 17.)

From 1965, Bud Jones had been operating a successful shoestore in the inner city. In 1968 his store was burned out during civil disturbances. It was not until 9 months later that Mr. Jones was able to invest the insurance proceeds, plus a loan, in another store. In his new location, he decided that he would take measures to minimize the danger of civil disturbances or break-ins. On the exterior of the store, Mr. Jones spent $7,500 on remodeling that made break-ins or damage difficult. Now, although the brick store is attractive, it is also a virtual fortress. There are display windows which could be forced and entered, but Mr. Jones designed the store in such a way that entry into the display windows will not lead to entry into the store itself. Access to the display windows from the inside of the store is through small heavy steel doors that are barred when the store is not open for business. (Case No. 7.)

Insurance.—The failure to obtain adequate insurance coverage can put a businessman into bankruptcy as quickly as any other circumstance. Minority businesses in areas that the insurance companies consider to have a high incidence of crime can anticipate difficult and time-consuming problems in acquiring or maintaining adequate insurance coverage. The experiences of the 30 bear this out. The aspiring entrepreneur must consider the availability and cost of insurance before he commits himself to a particular location where there are crime problems.

When Richard Edwards opened Prize Liquor Store, the insurance policy of the previous owner was not renewed by the insurance company. The store was one of the first businesses to reopen in an area which had been hit by serious civil disturbances. Mr. Edwards contacted 12 companies in an attempt to obtain insurance coverage, but he was unsuccessful due to the location of the store. For the 22 months prior to going out of business Prize Liquor Store had no insurance coverage whatever. (Case No. 20.)

Robert Evans had no business insurance coverage when he opened Port Caribbean. He had approached two companies but was refused coverage because of his location is one of the inner city's high crime areas. In April 1969, a break-in resulted in the loss of all of Mr. Evans' specialty cooking utensils, a television set, and some paintings. The items stolen were valued at about $2,000, but the business had no policy covering the loss. The cost of replacement of the equipment had to be taken out of the sales receipts, and Mr. Evans was never able to recover. In May of the same year Port Caribbean closed its doors. (Case No. 26.)

Stuart Hale has $1,000 worth of insurance to cover any losses due to theft. He considers that he needs at least $5,000 on the $75,000 worth of furniture in his inventory. Mr. Hale applied for theft insurance in the amount of $5,000 but was refused due to his location on the edge of one of the city's high crime areas. He later was offered coverage in that amount, but the premiums were too high. He settled for $1,000 coverage, but his premium is still higher than it would be in other areas of the city. (Case No. 15.)

Russell Williams opened for business in February 1968, and in April of that year the area was hit by a series of civil disturbances that affected most businesses. Mr. Williams' store was burned out and he lost everything. Fortunately, the loss was covered by insurance, and he eventually received payment. Later in the year Mr. Williams decided to open for business again, and found that he had to use an insurance placement facility established by the city in order to obtain coverage. Even with the use of the facility, however, insurance companies will not now insure him against robbery, window breakage, or theft, unless it occurs during a riot situation. Furthermore, his insurance premiums are higher than for comparable coverage in other sections of the city. (Case No. 17.)

Bonding.—The inability to obtain bid and performance bonding can seriously affect the small business and limit its chances for survival and growth. Because minority-owned businesses tend to be small businesses, their financial positions sometimes are too weak to satisfy the criteria of the bonding companies. However, without the appropriate bonding, the business may lose the opportunity to obtain the sizable contracts needed to expand its operations and strengthen its financial position.

Howard Coleman and his Business Protection Service were in a position where they needed a contract of moderate volume in order to bring the company to a profitable position. Mr. Coleman became aware of Government contracts to be let for the type of security services that he could provide, and he decided to bid for them. In order to qualify to do the work, Mr. Coleman's business had to be bonded. He tried desperately to obtain the bonding, first from companies in the United States and then in Canada and England. All refused him because of his company's inadequate financial size. Mr. Coleman believes that bonding requirements and criteria discriminate against the small businessman. He is still in need of a sizable long-term contract, and although he is convinced that his company has proven its ability to handle such an undertaking adequately, he is discouraged about the prospects of obtaining the prerequisite bonding. (Case No. 4.)

Insurance and bonding, where it is required or dictated by the type of business, should be taken into account by the aspiring businessman before he commits himself to opening up for business. The inability to obtain either may become the most significant problem a bankrupt business has to face.

Government and Business

Every business operates within a framework of local and Federal laws and regulations. From time to time each is also affected by governmental activities unrelated to regulatory statutes. Some of the 30 businesses felt the effects of both statutory regulations and governmental activities, particularly those related to urban renewal programs.

Compliance With Governmental Regulations.—Several of the 30 experienced problems caused by the requirement to comply with local laws and regulations specifically related to their types of businesses. The case studies indicate the importance of knowing in advance the legal specifics applicable to the chosen venture.

Shortly after deciding to go ahead with the establishment of Empire Ballroom, the five investors found that the local regulations applicable to its licensing required that restaurant facilities be made a part of the operation if liquor would be served. Accordingly, the five were required to include kitchen and food service facilities in their plans for remodeling, and to set aside a portion of their investment for the purchase of the necessary equipment. They spent $5,000 for used kitchen equipment which was purchased in another State, brought to Fremont, and installed. Several months after opening, they discovered that the used kitchen equipment did not meet the standards in the local health regulations. New equipment was purchased to replace it. The transaction resulted in an additional $5,000 expenditure which had not been foreseen, and required the partners to find further financing. (Case No. 11.)

Because George Fleming wanted to open his bakery as soon as possible, he leased a building which had previously housed a bakery operation. He felt that this would insure that he would not be required to engage in lengthy or expensive remodeling. However, an inspection by a local health official revealed that remodeling was in fact required, and Mr. Fleming had to hire a contractor to do it. The remodeling work delayed opening for 4 months. During that period Mr. Fleming had to pay rent at the rate of $200 per month, an unplanned expense that, given his limited initial financing, left him critically short of funds. (Case No. 16.)

Tax filing was the second major governmental requirement that brought difficulty to some of the 30 businesses. All of the businessmen hired outside accountants to assist with preparation of their yearly tax returns. Nevertheless, a few suffered from bad advice and assistance.

Realizing that she was not able to handle her own bookkeeping and accounting, Pat Jamison sought help from outside accountants. After two accountants failed to provide her with the assistance that she required, Mrs. Jamison settled on a third, who took responsibility for all of the recordkeeping, accounting, and tax reporting. She found that although she was paying a large monthly sum for these services, the accountant's attention to the business became increasingly faulty. One of the most obvious lapses caused the late filing of an income tax return. As a result of the late filing, Mrs. Jamison's Downtown Beauty Salon was fined $400, and she had to hire still another accountant to straighten out her problems with the Internal Revenue Service. (Case No. 3.)

Several of the businesses had problems related to employee withholding tax payments to Federal and local authorities. It is understandably tempting for a small businessman, who finds himself short of cash for business debts, to utilize funds that must be reserved for the payment of payroll taxes.

Howard Coleman started his Business Protection Corporation with a small amount of financing and has run into continual cash shortages. He has found it difficult at times to maintain enough cash on hand to pay the salaries of his security guards and meet the other debts. Shortly after startup he began utilizing the money withheld from his weekly payroll earmarked for taxes. He gradually got behind in forwarding the amounts due to the Internal Revenue Service. As Mr. Coleman said, "I was just using money on hand to pay existing obligations." Payments are to be made quarterly, and he was soon two quarters in arrears. Although his business is growing and shows signs of becoming a profitable and stable venture, Mr. Coleman has been seriously concerned that problems arising from the neglected tax payments could cause serious difficulties. (Case No. 4.)

Urban Renewal.—Because minority-owned businesses are often located in deteriorated sections of the inner city, they are subject to the impact of government-sponsored renewal projects. Some of the 30 businesses were directly affected by such projects. They found that, desirable as a renewal project may be for the city itself, it may be disastrous for the individual businessman if it catches him unaware or if he is not able to make an adequate adjustment in his operation.

George Fleming was forced to relocate because urban renewal projects had reduced the number of families in his area and, as a result, sales had dropped considerably. Mr. Fleming says that prior to the start of the projects he had been doing a good business. He was compensated for the loss of his business by the urban renewal authorities, and they were instrumental in helping him obtain a loan in order to open at a new location. Against the advice of the authorities, however, Mr. Fleming decided to locate on another side of the city instead of in a nearby location. The building he chose had once been a bakery and was larger than the building that the urban renewal people were recommending. Mr. Fleming believed that his customers from the previous store would follow him to the new one and that, in addition, he would pick up the neighborhood trade of the new area. He opened the new store in March 1969. By August, when he closed, he had sold less than $1,200 in bakery products. Mr. Fleming could not develop a trade among the residents of the new neighborhood, and his old customers told him that it was too far to travel. (Case No. 16.)

From the time he opened in early 1969, Stuart Hale has done well at his furniture store located on the border of one of the city's ghetto areas. He had taken over a business that had been in the neighborhood for decades and that had built up a substantial amount of customer loyalty among the neighborhood families. Mr. Hale was able to expand on that loyalty. However, he is soon to be forced to relocate his store because it is situated in an area scheduled for renovation. He has 9 months in which to move into a new location. He hopes to benefit from the relocation if possible, and is looking for an appropriately sized building in an area just six blocks from his current location. This location would be more accessible to the new clientele he hopes to develop, and yet easily accessible to his present customers. (Case No. 15.)

Even though they were not forced to relocate their operations, several businessmen found that urban renewal projects nonetheless had a significant effect on their business operation by altering previous residential and commercial patterns.

After deciding they would start their own pharmacy, James Fields and Leon Marshall faced the decision of where to locate. Although they preferred to locate in an area that had just been through a renewal project, they nevertheless selected a site in an area scheduled for urban renewal. They had consulted the appropriate authorities, and found that the period of maximum disruption would be reasonably short. They decided that the business could absorb the loss until the new residents began moving in after the completion of the construction projects. The partners took over the pharmacy in March 1969. Because of the effects of the urban renewal project, sales started declining in July. The partners cut costs in anticipation of the lean period they knew was coming. The decline continued until April 1970 when it hit a low point. Sales remained at the low level for about 6 months, and then the population of the area began to rise again. Sales improved. Having prepared themselves, the partners had been able to withstand the decline and still register a profit. (Case No. 25.)

Shoe City is located in an area that was the scene of large-scale civil disturbances that resulted in the burning and looting of most of its commercial establishments. After the disturbances, many of the storeowners were reluctant to reopen because of their uncertainty regarding the future of the area. Tentative plans for a general renewal of the area were adopted, and the urban renewal authorities began to condemn and purchase certain buildings in prepara-

tion for the development activities. The riots ended 1½ years ago: No reconstruction has yet taken place, and the urban renewal plans are still not definite. Half of the stores remain vacant, with plywood doors and windows, and smoke-stained exteriors. The unfavorable appearance and lack of operating retail stores, plus general uncertainty as to what the future holds, has convinced Mr. Jones that he should put no faith in the area's short-range prospects. He seriously questions the motivations of the politicans and government officials who are influencing the urban renewal program. He hopes that new outlets in other sections of the city will make up for a serious sales decline that may be coming to his first store if the area continues to deteriorate. (Case No. 7.)

The experience of the 30 clearly indicates that the ghetto-located businessman must be alert to the possibilities of urban renewal projects in his area. Therefore, he must exert every possible effort to determine in advance the impact such projects are likely to have upon his business. The search for this type of information may prove difficult, but without some assurance of stability in the area, the businessman runs the risk of encountering a radically different market than he anticipated or than his business can withstand.

Managerial Assistance

The 30 businessmen surveyed for this project discovered that the managerial requirements of small business ownership are complex and demanding. A few attempted to deal with these requirements by relying wholly on their own abilities. Others sought continuing managerial assistance either inside or outside the business.

Managing Partners.—Eight of the 30 businesses began with two or more principal investors or partners, and their experiences indicate that both managerial benefits and problems may result from the presence of more than one management voice in the business. The eight cases showed that although friendliness between the partners was important, even more significant to the development of the business were common interests in, and approaches to, the business. In four of the businesses the partners identified significant benefits that resulted from the balance of managerial skills that having two or more partners brought to the business.

Bill and Ralph Lincoln explored the possibilities of various business ventures together, and finally decided that the retail office furniture business was the most opportune. The brothers entered the office furniture business with similar interests and strategies for building it into a large and profitable venture. Ralph provided the new venture with an expertise in the areas of bookkeeping and accounting. Bill possessed strong organizational ability and had sales experience with a large national home products company. He was the kind of aggressive and effective salesman that a new business requires. Together the brothers built the business quickly into a profitable venture. (Case No. 1.)

In other cases, conflicts between the partners regarding basic interests and strategies were severe.

To Frank Washington, Community Contractors was a means of improving the appearance of the ghetto and providing jobs to the unemployed of the inner city. His partner, Henry Jackson, was interested in developing Community Contractors as a viable and profitable business venture which would grow to become one of the principal contracting firms in Carlton. Mr. Washington was in charge of the carpentry work, and Mr. Jackson ran the office. The partners continually disagreed on policies and business strategies. One of the more critical disagreements was the result of their differing views on employment practices. Mr. Washington believed that the company had the responsibility to maintain people on the payroll even though there was insufficient work. Furthermore, he was reluctant to lay off inefficient or, in some cases, dishonest employees. Mr. Jackson said that his partner essentially had a no-fire policy, giving employees "a fifth and sixth chance." Mr. Jackson believes that the conflict over employment policies and business strategies caused their downfall. The bank and the local assistance organization recognized the managerial conflicts, and suggested that one of the partners step down to second in command. Neither of the partners would agree to such an arrangement, and Community Contractors eventually became a disastrous business failure. (Case No. 19.)

Managerial Employees.—Several of the businessmen attempted to hire skilled managerial help. For some, this proved impossible because of their weak financial situation. Others, who could afford it, sometimes had difficulty finding qualified people.

> John Campbell, at Vacuform Manufacturing, has developed a substantial volume of business in his short period of operation. However, the company is now producing at capacity, and thus the only way to further increase sales is to start a second shift. Mr. Campbell tried to manage a second shift himself, but found the physical demands too taxing. Although he has looked for someone to hire as an assistant manager, no qualified prospects have yet appeared. He says that if he can find qualified managerial help, he will be able to start a second shift and at the same time devote more of his attention to longer range problems of business development. (Case No. 2.)

> During the initial stages of Data Services' operation, Neal Hart spent most of his time finding new customers. He was an effective salesman, and the company grew. With the increased volume of business, however, Mr. Hart had to spend more time with operating details. Since Mr. Hart had been the only salesman, sales growth stopped. He soon realized that he needed managerial help if the business was to maintain a balanced growth. Finally, after considerable searching he hired an assistant who once had a small business of her own. She has helped to relieve Mr. Hart of a significant amount of the administrative burden, and this in turn has allowed him to devote more time to the development of sales and new services. (Case No. 21.)

> Stuart Hale purchased his furniture store from Albert Goldman. Mr. Goldman took a special interest in helping Mr. Hale establish a successful venture, and offered his continuing services as an adviser and salesman. Mr Hale accepted, and Mr. Goldman is still with Firstline Furniture on a half-time basis. He and Mr. Hale discuss the problems of the business on a continuing basis and although the final decisions are Mr. Hale's, he continues to have the benefit of Mr. Goldman's experienced and sound advice. (Case No. 15.)

Outside Assistance and Guidance.—Of the 30 businessmen, 20 had substantial help from local minority business development organizations when they started their ventures. This help generally took the form of providing guidance and assistance in arranging the initial financing. In several cases it was anticipated that there was to be ongoing managerial assistance, either by or through the development organizations, once the minority-owned business was established. However, the experiences of the 20 show that in spite of the good intentions of the development organizations, their advice and assistance was not considered to be of significant value. The businessmen felt that they were largely on their own in confronting their managerial problems, and believed the outside guidance they received was too infrequent and insufficiently specific to be of substantial help.

> After establishing his specialty record business, Paul Hazard went to a local minority business assistance organization, Stockdale Business Development Corporation (SBDC), for help on a variety of matters, including subsequent financing and general managerial assistance. SBDC was set up primarily as a promotional and financial assistance organization, but had limited means for providing ongoing technical assistance. It helped Mr. Hazard with his financing needs and provided some free advertising for his business. Beyond that, however, Mr. Hazard recalls that the only managerial assistance it provided was an occasional form letter reminder that Federal taxes were due. He regarded the letters as an insult to his intelligence and regrets that more important managerial assistance was not provided. Mr. Hazard's business eventually failed, and it is apparent that he did indeed need substantial managerial assistance. Although he appreciates the financing assistance that SBDC provided, he notes that it was of little help in the long run since he lacked the managerial expertise to capitalize on it. (Case No. 6.)

Most often criticism of the managerial and technical assistance available or offered to the new entrepreneur was related to the fact that it was too general in nature and not directed to the specific venture or problems of the entrepreneur. However, one businessman did indicate that he received substantial and significant aid from a trade association which had established a program to assist minority businessmen. The trade association provided detailed information and assistance that was directly applicable to the entrepreneur's venture.

> Russell Williams' first attempt to establish Clothes For Him had been thwarted by a civil disturbance which resulted in the store being looted and burned. After the loss of the store, Mr. Williams was put in contact with a men's wear trade association which established a program to aid the entry of minority individuals into the retail clothing business. The association agreed to assist Mr. Williams in his attempt to establish a second clothing store. Initially, they were able to provide Mr. Williams with

professional assistance in the design and layout of his new store. Furthermore, the association provided the new business with advice on recordkeeping and inventory control that was specifically related to the retail clothing business. Most importantly, through the aid of the association, Clothes For Him was able to obtain from cooperating clothing manufacturers special extended credit terms beyond those standard to the trade. As a result, Mr. Williams was able to initiate his second venture well advised and well stocked. The subsequent contact between Mr. Williams and the trade association's special assistance group has been frequent and helpful. On several occasions each month, he receives information relating to market changes and advice on important aspects of business operation. (Case No. 17.)

Unwanted Managerial Interference.—Notwithstanding the aforementioned instances, there were a few of the businessmen who resented the assistance or guidance provided by the development organizations or sponsoring entities. They were inclined to feel that "suggestions" were often actually directions. These cases were limited to those businesses which had been not only assisted, but actually sponsored, by outside entities.

Jeff Morris became involved in the establishment of Diversified Services only after the details of the operation had been determined by the sponsoring community development organization and the large corporation that was to provide technical assistance and the bulk of Diversified's sales. Mr. Morris spent 6 weeks at the sponsor's factory becoming acquainted with the technical and managerial aspects of the business. He states that he is in the business today only because of the initial financial, managerial, and technical assistance provided by Diversified's two sponsors. Nevertheless, he feels that he is restricted by his dependent relationship with the sponsoring company and his own board of directors. The board was selected by the community development organization and the sponsor prior to startup. The board was intended to, and does, provide valuable managerial guidance. However, Mr. Morris says that he feels the board's influence is unduly conservative. He says he would prefer to have more control of his situation and at times wishes that the responsibilities and the decisions were solely his. (Case No. 18.)

Most of the 30 businessmen surveyed found themselves in need of managerial assistance in order to deal with the complex and demanding task of running a small business venture. With few exceptions, they were unsuccessful in satisfying their full needs. This tended to be true whether they took on a business partner, attempted to hire managerial help, or consulted with an assistance organization. Generally the assistance received was not sufficiently keyed to the specific needs of the business to be of substantive value. Their difficulties underscore the necessity for the new minority entrepreneur to acquire the requisite managerial skills for his venture prior to startup.

Significant Background and Personal Characteristics

A business succeeds or fails primarily because of the decisions that people make. The entrepreneur himself makes the most important decisions in the life of a business. The decisions, and the way the entrepreneur arrives at them, are determined largely by his background and experiences.

The businessmen surveyed came from a wide variety of backgrounds and experiences and consequently their decisionmaking capabilities and attitudes varied greatly.

Formal Education

Undoubtedly, many aspects of business cannot be learned or understood without actually experiencing them in a real life situation. Nevertheless, the lack of familiarity with basic business practices may seriously hamper the new businessman. In fact, it may cause him to close his doors before there is sufficient time to gain the required knowledge through personal experience. A formal education in the business field does not guarantee that a particular businessman will succeed. Nevertheless, it is one of the more important factors that tends to help him get through the inevitable periods of difficulty. A common comment from the 30, whether successful or unsuccessful, was that in

retrospect they wish they had known more about standard business practices and procedures prior to startup.

A formal business education at the college level is only one way to learn those practices and procedures. Four of the ventures were headed by entrepreneurs who had completed a 4-year course of study in business education at the college level.

> Bill Lincoln received a bachelor of arts in business administration in 1961. Upon moving to Brighton he decided to continue his formal business education and he enrolled in a local university where he took several courses in marketing and business practices. Bill Lincoln's brother, a partner in the firm, was a graduate in accounting. Between the two of them they were able to organize the business, set up its administrative framework, and confront the market without any help from others. (Case No. 1.)

> Neal Hart had received bachelor's and master's degrees in business administration. That formal education, combined with his later experience, first as a computer programer and eventually as a consultant in computer technology, gave him the knowledge that allowed him to take advantage of the opportunity to move into the computer services business without having to resort to others for technical and managerial assistance in establishing the company. (Case No. 21.)

After startup, others realized that formal instruction in business would help them in their ventures. Several participated in business management and training courses at colleges or local institutes, or in workshops sponsored by minority business assistance organizations or the SBA.

Without doubt, specific preparation in business administration is highly desirable. Nevertheless, a formal general education is also important and can provide some of the skills and basic information that will aid the entrepreneur in achieving his goals.

The analysis of the 30 demonstrates a wide range of educational levels attained by the entrepreneurs. Of the 15 successful ventures, 14 were headed by businessmen who had completed high school, and nine of them had completed a year or more of study at the college level. Only eight of the 15 unsuccessful ventures were headed by entrepreneurs who had completed high school, and only four of these had gone on to college. The average number of years of formal education was 14 for the successful entrepreneurs and 11 for those who headed ventures that were forced to close. In the experiences of the 30, educational accomplishment tended to correlate with later business success.

Experience

Even though a formal education is important, it does not tell the whole story. A few of the businessmen found other ways of obtaining the skills and information needed to develop a successful operation.

> Stuart Hale left school in the 10th grade. Even those 10 years of formal education were of low quality, in a small rural school. Mr. Hale began work as a laborer, then moved into auto repair and became proprietor of a small auto repair shop. Later he opened his own billiard shop. He began learning the furniture business in 1964 as a part-time salesman at the store he was later to buy. After working part time for 4 years, he became a full-time salesman. When the opportunity to buy out the owner presented itself, he felt that he had the knowledge necessary to take over the operation. Mr. Hale still recognizes the value of formal education in business, and since taking over the store he has participated in several business administration courses offered by local schools. (Case No. 15.)

The 30 cases tend to indicate that there were two basic types of previous work experience that proved valuable to the new entrepreneur in his role of business decisionmaker. The first consisted of general managerial experience, regardless of the type of business. The second was work experience in the same type of business, or one related to the type, that the entrepreneur chose.

Of the 30, 14 had previous managerial experience in business, and 10 of the 14 went on to establish successful businesses of their own. Some of the 30 had extremely limited or no managerial experience; 11 of these failed in their business ventures.

> In 1959, shortly after graduating from high school, Bud Jones began work as a salesman in a Gotham shoestore. He stayed in the job for 3 years before becoming manager of a shoestore in another city. He remained as manager for less than 3 years, and then returned to Gotham in order to take over the management of another shoestore. He remained there for 8 months and then decided to begin his own store in 1965. He had had a total of 3 years as a shoestore manager plus 3 years' experience as a salesman. His store was successful, and he operated it for 2½ years until it was closed by a riot. Eight months later he made another attempt, and

since that time he has developed a profitable business which includes two retail shoestores and plans for a third. (Case No. 9.)

After completing pilot training, Delmar Fadden established a small flying school. His eventual aim was to own and operate a charter service, but first he needed some managerial and technical experience. The charter service would be a larger venture, require more outside financing, and involve increased risk. Mr. Fadden ran his flying school for 3 years, during which he gained valuable managerial experience and a knowledge of the field of aviation services. This background later allowed him to make a successful venture out of Quickair Flyers. (Case No. 28.)

The likelihood that previous managerial experience will contribute to business success is increased substantially when the entrepreneur is able to acquire that experience in the exact operation he eventually purchases.

After leaving the service, Russell Williams took a job as a clothes salesman in a men's store in the city of Benson. During the next 7 years he gained substantial understanding of customer tastes and the business practices in that line. He was eventually promoted to assistant manager. Later, he served as the store's manager for 1½ years. At the end of that period the owner offered him the opportunity to purchase the business. The 8½ years gave him a full understanding of the men's clothing business, the standard practices of the trade, and the individuals with whom he would have to deal. Mr. Williams completed the purchase, and since that time has been able to put his experience to work for himself. His store is a success, and Mr. Williams has recently opened a second outlet. (Case No. 17.)

Even though there is no opportunity to acquire managerial experience, work experience in the same line of business as the entrepreneur intends to enter is likely to enhance his prospects for success. The experience can give him valuable knowledge of the practices of the trade in general and an understanding of the difficulties most often encountered. Once again, as with managerial experience, if this work experience is acquired in the same operation eventually purchased, it will prove especially valuable.

Prior to starting his advertising and public relations agency in the city of Emerson, Tom Gordon had held two public relations positions with Emerson black social-progress organizations. In addition he had consulted in public relations for a few local white-owned corporations. This experience provided him with a good base of relevant technical knowledge for his new agency. To supplement his knowledge of the entire business, however, he also hired two very experienced individuals to handle the key jobs of media director and copywriter. Their presence gave Mr. Gordon more time to devote to managing his agency, an experience which he previously had not had. (Case No. 14.)

One of the reasons that Stuart Hale was confident that he could make a success of the furniture business was that for 5½ years he had been doing well as a salesman in the same store that he intended to buy. He was acquainted with manufacturers' representatives and other suppliers, and knew the regular customers and their tastes. Confident that he could apply his knowledge and experience to an operation of his own, Mr. Hale went ahead with the purchase. After 1½ years, Hale's Firstline Furniture Company is doing well. Mr. Hale recognizes that his success is largely due to an understanding of the trade, acquired over several years as an employee at the same store that is now his. (Case No. 15.)

As important as previous experience may be, a few cases indicate that because of discriminatory practices in employment, the minority individual may have difficulty in finding an opportunity to gain the suitable experience.

Jerome Butler completed a year of photographic studies and began looking for an opportunity to apply his new skills and to develop an understanding of the business side of photography. He was able to find an established photographer who was willing to hire him as an apprentice. He began working with the photographer at receptions and other social affairs. On several occasions the photographer received an adverse reaction to his using a black assistant. As a result he felt forced to let Mr. Butler go. Later, after he had failed in his attempt to start his own studio, Mr. Butler realized that his incomplete apprenticeship had prevented him from acquiring the skills that might have made the difference between a successful venture and a failure. (Case No. 5.)

The importance of previous formal education and managerial or work experience was apparent in the 30 ventures. Either through education or experience it was crucial that the businessman understand the essential aspects of business and be able to anticipate the inevitable problems. It was also apparent that those who succeeded had prepared themselves through a variety of combinations of education and experience. The 15 successful entrepreneurs represented a combination of experience and education appropriate to their circumstances.

Personal Characteristics

Neither education nor experience can make up for a faulty approach or attitude toward the business venture. Certain personal characteristics of the 30 seemed to have a significant effect upon whether they were forced to close or were able to develop successful businesses. Among those attitudes and personal characteristics noted as being particularly important were commitment, flexibility, and personal salesmanship.

Commitment.—The job of managing any small business is formidable; management of a small minority business is even more formidable. A small minority business has little possibility of surviving if the owner is not extremely dedicated to making it a success.

> Jerome Butler opened his photographic studio for business on weekends and during evenings. Because he held another job, he could devote only 30 to 35 hours per week to his new venture. Mr. Butler now says that although he frequently put in 30 to 35 hours per week in his studio, the time spent was often unproductive. He would do things that were personally interesting to him rather than deal with the work of the studio. As a result he was late in delivering prints and portraits to his customers. He was discouraged with the physical appearance of his studio, but found no way to compensate for it. Because at times the appearance embarrassed him, he was not motivated to look for new business. Jerome Butler now says that if he ever again starts a business, his attitude toward his new business will be better. He recognizes that a lack of commitment and determination was a principal problem and reason for his failure. (Case No. 5.)
>
> Richard Edwards entered the retail liquor business because he had a partner with experience in the field. Mr. Edwards felt that with his dedication and his partner's knowledge of the retail liquor business they would be assured of a successful venture. In fact, he belived that within 3 to 4 months both he and his partner could leave the business in the hands of another and move on to other ventures. Mr. Edwards now ascribes the store's failure in part to his partner who had training and practical experience, but who did not put in sufficient time and was not committed to the business during the first few crucial months. Later, when he did begin to give full-time attention to the operation, it was too late to rescue it. (Case No. 20.)
>
> Alan Lee approached the office of the Huntington Business Development Council (HBDC), whose mission it was to promote minority-owned business. With its assistance, Mr. Lee applied to the SBA for a $7,000 loan. The application was sent back for corrections, with an indication that once the corrections were made the loan would be approved. Upon receiving the application, Mr. Lee and the HBDC decided that they would increase the amount of the request to $10,000. The application was revised accordingly and forwarded to the SBA once again. The SBA rejected the application on the grounds that the collateral offered was not sufficient. Mr. Lee was advised that he should resubmit the application for $7,000. By this time Mr. Lee says that he had become tired of the difficulties involved in the financing, and he decided not to resubmit the application. In a short time, Mr. Lee was out of business—largely because of inadequate inventory and the resulting problems. Had he been sufficiently committed to put up with the delays that the loan application occasioned, Mr. Lee might well have been able to overcome the basic weaknesses of his operation. (Case No. 22.)

Commitment is essential to most business operations, but a strong commitment, in and of itself, does not assure success. Most of those who were forced to terminate operations did so only after a long and trying period of business decline. People of less determination would have become discouraged and concluded that their businesses were doomed to failure much sooner.

> Ken Smith had failed to develop the large government contract he was counting on to provide the base for his business. It became apparent that if he were going to develop the firm into a successful one, he would have to change his sales strategy and look for business elsewhere. With a few small contracts, Mr. Smith was able to hang onto his business for over 2 years. He regularly worked 60 to 70 hours per week and was committed to the point where, for the last year of operation, he drew no salary; his family of seven relied upon the small income that his wife was able to earn teaching. The failure of the business could in no way be attributed to lack of commitment and dedication on the part of the entrepreneur. (Case No. 8.)

Flexibility.—In very few cases did the real-life situation encountered by the 30 look like the one they had pictured. There may have been an uninformed or unrealistic appraisal of the competition, the customers' tastes, the availability of supplier credit, or a wide variety of other conditions. Or perhaps appraisal of the initial conditions was correct, but those conditions later changed.

The chances of succeeding are increased if the businessman is flexible in confronting either

changing conditions or a situation different from the one he had anticipated. The experiences of the 30 show several instances of entrepreneurs who were able to alter substantially some aspect of their business in order to deal with such problems.

> Delmar Fadden had to find a full-time pilot before he could start his flying service. Since Mr. Fadden was a pilot for a regional airline, he would be available 16 days each month to attend to the business. After a long search, he found a pilot to employ on a full-time basis, and the flying service opened for business. One month later the pilot quit, and Quickair was forced to close. Nevertheless, Mr. Fadden was not content to allow the infant venture to lie idle until another pilot could be found. Furthermore, he had learned that it was up to him personally to develop the business to the point where he could leave it in the hands of another for half of the month. Therefore, Mr. Fadden pressed his employer for a leave of absence for 9 months, turned his efforts to the flying service, and brought it to a level where he could return to the airline. (Case No. 28.)

> Howard Coleman moved his security office from the small downtown location to an office in a predominantly black section of the city. He said that at the time he felt that he was bowing to community pressure to locate in a black area. After several months in the new office, he realized that since the vast majority of the companies to which he had to sell his security services were white-owned, he would have to locate in an area more convenient to them. Mr. Coleman made a second move to a large suburban shopping center that would attract the white business upon which he had to depend in order to develop a large and profitable operation. (Case No. 4.)

Salesmanship.—Many business situations require that the entrepreneur be capable of convincing others. At various times in the life of the business the entrepreneur will be called upon to convince or persuade, among others, a banker, a supplier, his employees, and of course his customers. For a variety of reasons, including the need to overcome racial prejudice, black entrepreneurs find themselves in circumstances that require a highly developed selling competence. The problem of an entrepreneur's limited sales ability may be overcome in part by hiring others who are able to compensate. However, it is more often the case that the small business is dependent upon the entrepreneur's own ability to convince, persuade, and sell.

Among the 30 there was a wide range of abilities in salesmanship. In several cases the presence or absence of this personal characteristic played a significant role in the development of the business venture.

> Bill Lincoln's new office furniture business depended upon his ability to sell from catalogs. The operation had no inventory so there could be no demonstration of the products. Every sale that was made during the initial period was made on the basis of personal contact by Mr. Lincoln. He later hired another salesman, but found that the latter could not close sales with many of the accounts that Mr. Lincoln himself had developed. He moved the salesman to another position, took over the accounts himself, and was largely successful in reselling them. Prior to opening his own business he had worked in marketing and sales for a large national manufacturer. Combining that experience with a natural selling ability allowed him to provide his fledgling company with the sales ability that it required. In addition to his ability to sell to customers, he was persuasive with suppliers. (Case No. 1.)

> In the year prior to buying out his former employer, Stuart Hale sold over $150,000 worth of furniture and was top salesman for the store. He knew that he was a good salesman and believed that if he could sell for another person, he could do it for himself. His success with the store proved him correct. (Case No. 15.)

> Howard Coleman started his security service business in a southern community that had few black businesses and that had never been exposed to the type of operation and service that Mr. Coleman intended to provide. He started as the firm's sole employee, and all contracts for security services had to be developed and sold by Mr. Coleman himself. The vast majority of the firms were white-owned and managed, but Howard Coleman was able to overcome racial resistance to a degree sufficient to develop what is now a large and successful venture employing close to 40. (Case No. 4.)

The education, experience, and personal characteristics of the entrepreneurs were as varied as the types of ventures that they selected. Some of the 30, by choosing business ventures especially appropriate to their experience and abilities, increased their likelihood of achieving success. Others, having relied more on desire than on an objective analysis of their suitability for a particular venture, found that they were not able to deal satisfactorily with the managerial problems they faced. The experience of the 30 underlines the importance of the prospective businessman's assessment as to whether his education, experience,

and personal characteristics are appropriate to the venture under consideration or, even more basically, to the responsibilities of being a business manager.

At Home and In the Community

The businessman, especially the small businessman, cannot separate his business life from his relations with his family, his friends, and the community at large. The hours and attention required by a small business operation inevitably reduce the time and energy which its owner has for his personal life. Not all of the 30 were married, but among those who were, their unanimous reaction was that the entry into business had a significant effect upon their family life.

Less unanimous, but still common, was the indication that their involvement in business changed their relationships with friends and their standing in the community. For the good of his business, his family, and his relationship to the community, the prospective businessman should consider and be prepared to deal with the changes in his life style that starting his own business are likely to cause.

The Family.—The experiences of the 30 indicate that entry into business very often created a strain within the family, because the entrepreneur simply did not have as much time to spend with his family after opening the business. In addition, the problems that the businessman encountered during the day were frequently taken home to the family at night. Finally, the financial results of the business venture were sometimes disruptive to the family.

> Jeff Morris was 31 years old, married, and the father of three when he started Diversified Services. The business required that Mr. Morris work long hours and a 7-day week. Diversified Services has been in operation now for over 2 years, and in referring to his marriage and family life, Mr. Morris says that "the business damn near broke it up." In his case there were three causes of the strain between the business and the family. First, the time that the business required left Mr. Morris with little time to spend with his wife and children. In addition, Mr. Morris took a cut in income in order to start the business. Finally, the worry that the uncertainties of business caused were brought into the home. Although to this point the conflicts between family and business have not been resolved, Mr. Morris has been able to keep both family and business together during what may have been the most difficult period. (Case No. 18.)
>
> In 1968 when he started the business, Bud Jones was 29, married, and the father of four. With regard to business profits, he has done well; he has developed one successful shoestore and opened a second. However, the business, in its 2 years of operation, has created problems wthin his family. The considerable amount of his time required by the business is one problem. More important is the strain on the family caused by worry that another civil disturbance, similar to the one which closed his previous venture, might occur again. Then, too, there are the occasional "bad days" at the office. Finally, at this point in the venture, Mr. Jones still believes he could be making more money working for someone else than for himself. (Case No. 7.)
>
> For the first several months after opening his service station, Ed Clark worked up to 18 hours per day, 7 days per week. Since then he has cut down his hours to the point where he now works about 80 hours each week. Even at that, however, he says that he seldom sees his family, and even though the family is better off financially, the business has created domestic problems. (Case No. 10.)

In a few cases the entry into business by a married person had what the entrepreneur thought was a beneficial effect upon his family life. The situation where the wife joined the husband in the venture was rare, but two of the 30 indicated that this had the effect of bringing the family closer together.

> Mrs. Phillips had her own business even before her husband decided to help start the Empire Ballroom. Before her marriage in 1950, she had been a branch manager of a home products company. Later she and her husband were named distributors for the same company. Empire Ballroom was opened for business in 1968, and Mr. Phillips became its general manager in 1969. Later, his wife was named office manager. Their joint participation in the ballroom operation and their interest in its success have

given their family a strong sense of unity. (Case No. 11.)

Other married businessmen who felt that their families understood the venture and its importance in their lives also indicated that the business brought them closer together.

Neal Hart was married and had two children when he started Data Services. Although after 2 years of operation he still works about 72 hours each week, he feels that the business has drawn his family closer together. Mr. Hart says that his wife is more a part of this business than she was of the job that he held before. She is understanding and has a feel for the business problems that he faces. Very important, says Mr. Hart, is the fact that she considers the business as hers too and not just an income for her husband. (Case No. 21.)

Cliff Gibson worked at two jobs for 8 years—full time as a laboratory technician at a local university and part time at a clothing store. He kept the full-time job for some time after beginning his mobile retail clothing operation. At the time of start-up, he was 28 years old, married, and the father of one. By that time his wife had become accustomed to his long hours. He moved his operation 1½ years later into a downtown store. He now finds that he is working fewer hours than when he was holding two jobs and struggling to make the operation stable. He has more time with the family and has found that the business has given them a shared interest in the success of the operation. This is true in spite of the fact that he is earning only about 60 percent of what he earned when he held two jobs. They both feel that in the long run they will be happier and better off financially than if he were still working for someone else. (Case No. 29.)

A failed or failing business may be particularly hard on the family.

As Community Contractors was going through its most difficult period prior to being forced to cease operations, Henry Jackson's wife and children suffered right along with him. The difficulties that were encountered in the business and Mr. Jackson's struggle to find a way around them could not be separated from his home life. Community Contractors finally closed, and Mr. Jackson found himself heavily in debt and with the probability that he would be forced to enter personal bankruptcy proceedings. The strain of the period when the business was failing, and the uncertainty after it failed, caused Mrs. Jackson to suffer a nervous breakdown. Henry Jackson now sees one of his principal tasks as making the best of the situation and easing the burden that has been placed on his family of seven. (Case No. 19.)

Friends and the Community.—The relations between the entrepreneur and the community often underwent a change after he entered business. Most of the 30 found themselves better known in the community. Several commented that many people began to treat them as community leaders and sought their advice on a wide variety of issues.

Since going into the shoe business on his own, Bud Jones has been asked to speak before groups and to participate in community development programs. In addition, he has been interviewed on several occasions for radio and television news and public affairs programs. (Case No. 7.)

Although he is not very active in any organizations, Jeff Morris finds that since he entered business with Diversified Services he has made many contacts that provide him with benefits that he did not have before. He is frequently offered the opportunity to enter other business ventures. His success has put him in contact with new people and new sectors of the community. He says that his circle of friends has changed considerably. (Case No. 18.)

The new prominence in the community often brought reactions from acquaintances that were displeasing to the entrepreneurs.

Stuart Hale felt that generally he was well accepted by the community because he was successful, had a good product, a fair price, and participated in community development activities. He found that many people from the black community came to him for business advice. Nevertheless, a certain portion of the community seems to be resentful of his success. He notes a significant amount of jealousy. This bothers him since he feels that he is in fact making a worthwhile contribution to the black community. (Case No. 15.)

Alan Lee says that after he entered business for himself some of his neighbors wouldn't come to visit as they had before. He says that he noticed some jealousy, and friends seemed to become cooler toward him and his family. This bothered Mr. Lee because he felt sure that he himself hadn't changed. (Case No. 22.)

After Joe Kirby opened his service station he noticed that he was better known in the community than before. Mr. Kirby enjoyed his prominence and the fact that many of his friends would gather at his station. However, several of his friends became jealous. He says that this latter group now seems to be happier since his business closed, and once again, they are friendly. (Case No. 27.)

A few of the entrepreneurs indicated that in addition to detecting some jealousy on the part of friends and associates, they were the victims of rumors concerning their moral conduct on and off the job. The few that were subjected to this, although bothered by it, realized that such rumors

are sometimes the price of increased prominence in the community.

Business Associations.—The participation of the entrepreneur in association with other businessmen may be of particular benefit to the business. Neighborhood business organizations, trade associations, retail groups, and chambers of commerce are examples of the organizations that many of the 30 joined after entering business. Some found that membership in such organizations produced no benefits whatsoever. Others, however, were able to utilize the organizations and the contacts that they made to promote their businesses. Those who had gained from their memberships cited the following benefits: information on trade practices, participation in special sales and other promotional activities, contacts in the financial community, and, importantly, the development of sales to members of the groups.

Harold Phillips lists over 10 business and community organizations of which he is a member. Mr. Phillips enjoys participation in most of the organizations. Additionally, he states that his memberships have provided Empire Ballroom with a significant source of business over the 2½ years that it has been in operation. Partly as a result of those contacts, Empire Ballroom has been able to generate substantial demand for its facilities without having to engage in costly advertising. (Case No. 11.)

In the final analysis, business is a way of life that involves and influences not only the entrepreneur but his family and friends. They affect, and in turn are affected by, the operation of the business. The development of a successful business venture and the maintenance of rewarding personal and family relationships require that the entrepreneur be prepared to deal with the effects that result from his entry into the world of business ownership.

Final Advice From 30 Minority Businessmen

The 30 business people were asked: (1) What they wished they had known prior to going into business, and (2) what advice they would give aspiring minority entrepreneurs. Their long list of recommendations follows. The list by no means represents all of the considerations one should have in mind prior to starting in business, but it does provide one last reminder of the lessons that 30 minority business people learned the hard way. Their recommendations deal almost entirely with mistakes to be avoided in the early stages of the venture. In and of itself, this fact serves as strong testimony that the most crucial period for any potential entrepreneur is the time from the birth of the idea to enter business to actual business startup. Any mistakes or errors in judgment made during that time are usually the most difficult to rectify later. Businesses may fail long after their doors have opened, but the problem may have had its genesis long before they started.

WHAT DO YOU WISH YOU HAD KNOWN, BUT DID NOT, PRIOR TO OPENING FOR BUSINESS?

1. *How to manage.*—The most common response was one of regret that the business person had not realized just how complicated the job of managing a business would be. Once in business he found himself inadequately prepared to make the decisions required in those areas of the business in which he had no previous experience or instruction. For example, although he may have known very well how to sell, he found he did not know how to administer a work force, account for the flow of money into and out of the business, negotiate with suppliers, and so forth.

2. *More about my specific business.*—Many of the businessmen acknowledge that they knew much too little about the complexities of the specific type of business venture they undertook. They now wish they had been a little less eager to get started and instead had spent more time learning

about the business and the requirements to make it succeed.

3. *Lenders and investors can hinder your control of the business.*—If the business capitalization includes money from an outside lending or investing source, that source usually acquires a certain influence over the operation of the business. For example, a lender may place certain restrictions on the use of the business assets or limit future borrowing, or an investor may get a controlling vote on the board of directors. Certain businessmen lost control of their operations through just such means. They now wish they had known the implications and consequences of accepting outside lenders or investors.

4. *Accounting.*—A lack of knowledge on how to keep the business books caused more businessmen more frustration than any other single item.

5. *Once you run into trouble, you're on your own.*—Some businessmen commented that they wish they had known before they started that there are few sources of either money or good advice for a business that is in trouble.

6. *Business is a rough game.*—A few businessmen advise that they were quite unprepared for the stiff, hardnosed, and unfair or unscrupulous competition that business sometimes produces. They also advise that they were surprised at the number of people who were willing to cheat for their own economic betterment. They regret now that they were too idealistic at the beginning.

7. *My location was bad.*—Several of the businessmen now realize that the sites they selected for their ventures were inappropriate. The locations were either inconvenient for their customers, too deteriorated for retail sales, or located in a high-crime area which caused problems with customer fear, employee retention, high-insurance rates, and heavy thievery.

8. *My selection of a business partner was a poor one.*—A few of the businessmen who chose to enter into business with a partner now regret that decision. They wish they had realized before entering business that their partners did not agree with their views as to business goals, strategies, and policies.

9. *How much initial financing was required.*—Many of the businessmen either underestimated the amount of money required to start their businesses or decided that they could somehow make do with less than seemed needed. They now wish they had studied that requirement more carefully, for an undercapitalized venture tends to start with difficulties which persist and defy later solution.

10. *Governmental regulations and requirements.*—Numerous businessmen look back on problems they had with various Federal and local governmental agencies. In retrospect they wish they had known earlier about the procedures and complexities involved in even such basic requirements as withholding and paying employee taxes, social security deductions, obtaining business licenses, compliance with local regulations, and so forth.

11. *Self-employment brings long work hours, big worries, and family strains.*—Nearly all the businessmen who were married wished they had known prior to going into business of the heavy work commitment and other strains which were in store for them. Some might not have undertaken the venture had they been aware of these burdens, and others would have at least forewarned their families of the strains they would have to endure.

WHAT ADVICE WOULD YOU GIVE TO ASPIRING MINORITY ENTREPRENEURS?

- Before you actually commit yourself, be certain you are well prepared to do what you want to do. Take time to study the prospects. Know the business first.
- Consult with others in the business you are considering. Tap their brains. Benefit from their experiences.
- If possible, get some experience working in a similar business before you start yours.
- Asse s your assets and capabilities against the needs of the business.
- Be prepared to sacrifice. Expect the business to require long hours, more sweat and more worry than you initially think possible.
- Realize that you might well make more money, for less effort, by working for someone else.
- Be very critical in your appraisal of the opportunity. Avoid the "big dream," and ask yourself

why and how your intended venture should succeed.

- If possible, survey your potential customers. Ask them if they'll buy. See if you can get some advance assurances of sales.
- Be certain your family approves of the venture and that it is prepared to live with the strains and problems certain to follow.
- Be careful of investing in a business selling a "fad" that will soon be out of style.
- If you take on a partner, be certain that separate areas of responsibility are well defined and that his interests and goals are compatible with yours. Also be certain that his skills complement your skills.
- Choose your location very carefully. Don't take the first thing that happens to become available. Ask yourself why and how your intended customers would come to your location.
- After you plan your business strategy, be certain you plan your financial budget to match it. If available financing does not support the strategy, revamp the strategy.
- If you're entering the retail trade, be certain your starting inventory is sufficient, so that you will not lose customers because you can't satisfy their needs.
- Expect the suppliers to discriminate against you until you prove to be creditable. Be prepared for purchasing your initial inventory needs with cash.
- Start with enough money to allow for a cash reserve to carry you if the business doesn't "take off" as quickly as you had hoped.
- Get financial assistance from any source available. Let this source open other doors for you, but don't let it exclude you from loan negotiations.
- Assume that local financial institutions will help. Apply at several, and "shop" for the best deal.
- If you are offered a loan, check the terms and conditions carefully before accepting it. Ask the lender to describe clearly the limits of his financial help.
- Do not accept a loan which is inadequate for your needs and which may prevent you from borrowing more money elsewhere.
- Get proper insurance coverage.
- Have a good accounting and bookkeeping system set up before you start.
- Be certain you understand the accounting system, even if someone else keeps the books.
- Pay your bills as they come due, especially tax payments. Do not let debts accumulate.
- Watch your costs closely. Plan an operating budget for a situation in which sales will be less and expenses higher than you expected.
- Hire good help.
- Be prepared to sell. In nearly all new business ventures, the owner-manager is the major, perhaps the only, salesman. Be aggressive. Don't expect customers to come to you.
- Build your business cautiously. Anticipate certain problems, and invest in additional fixed assets when you are sure that sales growth warrants it.
- If a business opportunity still looks like a winner after careful analysis, have the guts to try it.

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